

FINANCIAL TIMES



Landesbanks
Privileged status
under attack

Page 17

EU flexibility

Making the Union
more efficient

Page 16



Pulp and paper

New hedge against
boom and bust cycle

Commodities, Page 32



Mercosur

Trade pact sets the
pace for integration

Today's survey, Pages 12-14

World Business Newspaper <http://www.FT.com>

TUESDAY FEBRUARY 4 1997

Row in Sweden over shutdown of nuclear plants

Sweden's minority Social Democratic government ran into a hall of criticism from industry, trade unions and political parties after finally agreeing to close decommissioning the country's nuclear power industry, which supplies half of its electricity needs. Page 2

Fax dumping alleged: The European Commission is investigating a complaint from the Netherlands that exporters in Japan and seven other south-east Asian countries are dumping personal fax machines in the European Union market. Page 4

Siemens to sell its television cable network which delivers TV programmes to some 350,000 households across Germany. It is talking to several potential buyers, among them Vebacom, telecoms subsidiary of the Veba utility company. Page 19

Général des Eaux, the French utilities and construction group, is poised to become the largest single shareholder in Havas, the communications group, under a proposal to increase its stake from 2.5 per cent to up to 30 per cent. Page 19

Raid at Belgian ministry: Police raided Belgium's finance ministry, including offices of aides to finance minister Philippe Maystadt, as part of an inquiry into alleged tax fraud by banks. Judicial police were also interviewing staff of Kredietbank. Page 2

Czech rail strikes: Railway workers in the Czech Republic called for the firing of managers and said they would begin a 48-hour strike at midnight last night and extend it a day at a time until demands are met. The unions fear economic reforms could lead to lay-offs of about 30,000 workers.

Basques strike tax blow: The Basque region of Spain has imposed lower corporate taxes than elsewhere in Spain, opening a new dimension in the controversy over European Union states attracting companies through tax competition. Page 3

Aetna, the US life and health insurer, agreed to invest \$300m in a joint venture with Sul America Seguros, Brazil's largest insurance company, in an attempt to expand low-cost healthcare in Brazil. A further \$90m may follow depending on performance. Page 19

US earnings jump: Incomes of Americans rose 0.8 per cent in December, the best showing since June, but spending increased just 0.5 per cent during the important holiday shopping season. The income gain lifted earnings for the year by 5.5 per cent, down from a 6.3 per cent jump in 1995. Page 7

Business jets planned: Israel Aircraft Industries and Chicago's wealthy Pritzker family say they will form a company called Galaxy Aerospace to build intercontinental business jets at lower prices than comparable aircraft.

Industrial Development Bank of India, the country's largest development finance institution, has outlined a wide-ranging restructuring designed to position it as an integrated wholesale bank. Page 19

Hanbo jobs guaranteed: The South Korea government guaranteed completion of overseas projects started by the collapsed Hanbo construction group, seeking to control the scandal. Officials said they were calling in several bank heads for questioning.

Former French minister heads for cell Bernard Tapie, the bankrupt tycoon sentenced to two years in prison for his role in a bribery scandal involving the Olympique Marseille football team he once owned, was due to go into prison last night so his appeal can proceed. Last October, France's conservative government declared

Tapie unfit to serve in the European Parliament.

Zambian plague toll rises: The death toll in an outbreak of bubonic and pneumonic plague in Zambia rose to 30, with eight more deaths reported in the past three days.

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| STOCK MARKET INDICES | |
|--|----------------------------|
| New York: Dow Jones Ind. 5,735.30 (+17.71) | FTSE 100 2,258.55 (+27.14) |
| NASDAQ Composite 1,380.40 (+0.55) | Nikkei 18,985.05 (+244.06) |
| Europe and Far East: | |
| Germany DAX 3,062.29 (+27.14) | |
| France CAC 40 4,257.8 (-18.0) | |
| Japan Nikkei 18,985.05 (+244.06) | |
| US LUNCHTIME RATES | |
| Federal Funds 5.25% | |
| 3-month Treasury Bill 5.11% | |
| Long Bond 5.01% | |
| Yield 6.75% | |
| OTHER RATES | |
| UK 3-month Interbank 6.1% | (88.0) |
| UK 10 yr Govt 10.1% | (100.0) |
| France 10 yr Govt 10.6% | (106.7) |
| Germany 10 yr Govt 10.2% | (102.0) |
| Japan 10 yr Govt 10.4% | (104.4) |
| NORTH SEA OIL (Argus) | |
| Brent Dated 22.25 | (23.25) |
| WTI Dated 22.25 | (23.25) |
| WTI 2000 22.25 | (23.25) |
| WTI 2001 22.25 | (23.25) |
| WTI 2002 22.25 | (23.25) |
| WTI 2003 22.25 | (23.25) |
| WTI 2004 22.25 | (23.25) |
| WTI 2005 22.25 | (23.25) |
| WTI 2006 22.25 | (23.25) |
| WTI 2007 22.25 | (23.25) |
| WTI 2008 22.25 | (23.25) |
| WTI 2009 22.25 | (23.25) |
| WTI 2010 22.25 | (23.25) |

Enlargement would be accepted if treaty were signed on Moscow relations

Russia softens Nato stance



Anatoly Chubais: offer of compromise over Nato

By Guy de Jonquieres in Davos

Russia said yesterday it would accept a Nato that included former Warsaw Pact countries if a new treaty covering relations with Moscow was signed before its July summit. However, if Nato enlarged before signing a treaty, that would force Moscow to renege its policy of co-operation with the west, threaten to trigger a fresh arms race, and destabilise Russia by unleashing a resurgence of communism and nationalism. The compromise offer was announced by Mr Anatoly Chubais, President Boris Yeltsin's chief of staff, at the World Economic Forum in Davos. "All of us have to use this chance, which otherwise will be the last chance for all of us," he said. He said in an interview that if a satisfactory treaty could be signed before the July summit in Madrid, it would "open doors for future Nato enlargement". Mr Chubais added: "Russia has never said it was against any kind of enlargement."

He said a treaty would make enlargement acceptable to Moscow because it would change the nature of Nato and show that the west was no longer treating Russia as an out-

sider. That would make enlargement less controversial in Russia.

But if Nato pressed ahead immediately, it "would be the greatest mistake in western policy for 50 years". He said such a decision would hand political ammunition to communist and nationalist forces in Russia and create a "new dividing line" in Europe. It would also force President Yeltsin's administration to re-think its entire foreign policy, resume an arms build-up and withdraw co-operation from organisations such as the International Monetary Fund and the World Trade Organisation. Mr Chubais said several western leaders, including

Chancellor Helmut Kohl of Germany and President Jacques Chirac of France had responded positively to the proposal for a treaty in recent talks with Mr Yeltsin. Mr Strobo Talbot, US deputy secretary of state, had said Washington was also prepared to consider the idea seriously.

But Mr Chubais said negotiations had still to be held to decide the form and contents of the proposed arrangement, which needed to provide for consultation with Russia on Nato enlargement. Russia also insisted, as a minimum, on a legally binding agreement which ruled out any renewed arms build-up in Europe. Continued on Page 18

Alcatel talks herald joint bid for Thomson

By David Buchan in Paris

Alcatel Alsthom, the French telecommunications and engineering group, is in talks with Aerospatiale and Dassault to mount a joint bid for Thomson-CSF, which is to be privatised later this year. The alliance raises the prospect of a battle royal with Lagardère, the French defence equipment group which appeared to have won control of Thomson last autumn until France's privatisation commission ruled otherwise.

Lagardère had said it would bid again for Thomson-CSF, once the government announced how it wanted to sell the state electronics company. The government, which is considering whether to attempt another trade sale or to offer Thomson-CSF on the stock market, had promised a decision last month. Mr Alain Juppé, the French prime minister, said yesterday the announcement would come "between now and the end of February".

The possibility of Alcatel acquiring Thomson-CSF in conjunction with France's two aircraft companies - which are themselves planning to merge - would turn the Thomson privatisation into the biggest event of the country's armaments restructuring. It could create Europe's largest vertically integrated defence combine, making everything from basic electronic components to weapons systems and jet fighters. Although a far larger group than Lagardère, Alcatel is smaller in the defence sector. The Juppé government said last autumn it preferred Lagardère as a buyer for Thomson-CSF on the grounds of "industrial logic". An alliance with Aerospatiale and Dassault, which are awaiting approval to merge aircraft operations, would provide Alcatel with the defence industrial expertise it has been thought to lack. Alcatel indicated it would be "the leader" of any joint bid, and would appear well placed to put up most or all of the cash required. Its return to profit last year, at FF2.5bn (\$450m), sent its stock price soaring by 21 per cent last Thursday and Friday. It closed last night at FF542, down 1.1 per cent on the day. In the event of a successful bid, Alcatel said it could pool its FF10bn-a-year radio, space and defence division with Thomson. According to some reports, Mr Serge Dassault might add in his Dassault Electronique subsidiary.

Havas talks, Page 19



British prime minister Mr John Major with his French counterpart Mr Alain Juppé in London yesterday. Despite the smiles there were clashes on EU monetary and employment policies. Report, Page 18. Ecu package, Page 3

SBC may replace C&W in German telecoms alliance

By Nicholas Denton in London and Ralph Atkins in Bonn

SBC Communications, the US regional telephone company, emerged yesterday as a possible replacement for Cable and Wireless in the UK in a big telecoms alliance in Germany. Executives close to C&W said privately yesterday that the company had in principle decided to part company with Veba and RWE, the two German utilities with which it had planned to attack the German telecoms market from 1998.

Veba said last night it would persist with its joint venture with RWE whether or not C&W decided to participate. The venture - provisionally dubbed 0-Tel-0 - aims to capture 10 per cent of the German market within five years of 1998, the year from which the European Union telecoms market is due to be fully opened to competition. Executives close to the German utilities said the venture might build a local network

and only later link up with an international telecoms company, but they said they had engaged in discussions with "a lot of companies".

It is understood that the German companies have received an approach from SBC Communications, although none of the companies would comment. The US telecommunications company, although not an international carrier, has investments in alternative networks outside the US, such as Cogent in France. The shares of the two German utilities fell on the news that C&W was about to scrap its partnership. RWE closed at DM68.35, down DM0.95, and Veba at DM89.7, down DM0.9. C&W fell 2p to 464p as analysts speculated Veba would sell its 10.4 per cent holding in the group. In January 1995, Veba paid \$840m (\$1.35bn) for a 10.5 per cent stake in C&W and the UK group agreed to take a 45 per cent stake in a telecoms joint venture dubbed Vebacom.

They agreed to work together across Europe. But in May 1996, Mr Richard Brown was appointed to head C&W and, after merging its UK operating company with three cable companies, began to re-evaluate its strategy in Europe and Asia, where it controls Hong Kong Telecom. Mr Brown has had talks with Mr William Krey, chief executive of Sprint, the US long-distance carrier. Sprint is a partner of France Telecom and Deutsche Telekom, the French and German incumbent operators, in the Global One alliance. C&W said Sprint was just one of the many companies to which it talked, but investment bankers believe the UK company is considering a closer relationship with Global One. Deutsche Telekom explored the acquisition of C&W's UK operations last spring.

Siemens, Page 19
C&W pull out injects realism, Page 20

CONTENTS

| | | | | | | | | | |
|--------------------|------|-----------------------|----|---------------|-------|-------------------|-------|-------------------|----|
| News | 1 | Int. Econ. Indicators | 8 | Arts | 15 | Markets | 32 | Recent Issues | 42 |
| European News | 2 | Weather | 18 | Asia Guide | 15 | Commodities | 32 | Share Information | 35 |
| International News | 3 | Lex | 19 | Crossword | 22 | FTSE 100 | 32 | London SE | 36 |
| Asia-Pacific News | 4 | Features | 20 | UK | 28 | FTSE 100 | 32 | Wall Street | 39 |
| American News | 5 | Leader Page | 17 | International | 20-22 | Foreign Exchanges | 31 | Bourses | 39 |
| World Trade News | 6 | Letters | 16 | Money Markets | 31 | Gold Markets | 32 | | |
| Davos Summit | 8 | Observer | 17 | | | Int. Bond Service | 33 | | |
| UK News | 9-10 | Technology | 11 | | | Managed Funds | 33-35 | | |
| People | 11 | | | | | Money Markets | 31 | | |

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Swedish N-plant closure draws fire

By Greg Melvor
in Stockholm

Sweden's minority Social Democratic government yesterday ran into a hail of criticism from industry, trade unions and other political parties after finally agreeing to start decommissioning the country's nuclear power industry.

Nuclear power supplies half Sweden's electricity needs and the decision, in line with a referendum in 1980, will have far-reaching consequences for Sweden's energy-intensive manufacturing industry and the shape of the domestic power sector.

Market concern over the financing of the closure pro-

cess fuelled a 6 basis point rise in yields on long-term bonds, while the krona weakened against leading international currencies.

The government would not confirm details of a deal reached on Sunday night with two small opposition parties, the Centre and the Left party. However, Swedish media reported that one of the country's 19 reactors would be closed before the general election in 1998 and a second during the next mandate period.

Mr Anders Sundström, industry minister, insisted industry would be shielded from electricity price rises and called the accord "very responsible". Domestic consumers are expected to bear



the brunt of price increases. Opposition parties which did not take part in the agreement accused the government of neglecting sound economics in its determination to cement its informal alliance with the Centre.

Nuclear decommissioning has been a flagship policy for the green-inclined Centre,

but opponents argue a phase-out will lead to increased imports of fossil fuel power because more environmentally friendly alternatives are incapable of replacing lost nuclear capacity.

The government had been expected to start the phase-out by shutting reactors

owned by Vattenfall, the state power utility. Instead, media reports suggest that two reactors at the Barsebäck plant, owned by Sydkraft, the country's biggest independent energy supplier, are to be shut first.

Barsebäck is close to the city of Malmö and the Danish capital, Copenhagen. Denmark has lobbied for Barsebäck to be closed on safety grounds, and said yesterday the closure move "gave cause to rejoice".

Sydkraft said it would strenuously resist any imposed closure. Mr Göran Ahlström, chief executive, said the company would launch a claim for full compensation in the form of replacement power generat-

ing capacity. Sydkraft shares fell 8 per cent yesterday. Economists suggested Barsebäck's closure would cost SKr10bn-SKr20bn (\$1.4bn-\$2.8bn) and said it would fuel unemployment and undermine Sweden's creditworthiness.

Mr Per Olsson, managing director of the Federation of Swedish Industries, said: "It is financial madness unnecessarily to pay billions of kronor to close fully functional, safe and environmentally sound power stations."

SCA, the country's biggest forestry group, called it "a black day" and warned a nuclear phase-out would jeopardise the competitiveness of Sweden's pulp and paper sector.

Hopes rise in Italian pay dispute

By Paul Betts in Milan

The Italian government yesterday stepped up its efforts to reform the country's railways and to bring a nine-month pay dispute in the engineering and metalworking industry to an end.

Both issues are important components of government attempts to overhaul the structure of loss-making state enterprises and contain inflation so that Italy can meet the convergence criteria for membership of the European single currency.

There were signs yesterday of a possible breakthrough in the protracted metalworkers' dispute after the government proposed a new compromise contract for the

1.7m blue-collar workers. Although employers were still concerned by the proposed pension provisions, there appeared to be broad agreement on the level of wage increases, which are likely to set the pattern for settlements in other sectors.

Both government and employers have been worried by the inflationary risks of the contract at a time when wages have shown signs of rising faster than inflation in Italy. The compromise, involving extending the pay award of L200,000 (\$125) a month over 30 months rather than 24, followed all-night talks between the government, unions and employers on Sunday.

The centre-left administration of Mr Romano Prodi, the prime minis-

ter, hopes the remaining obstacles can be ironed out this week.

In contrast, railway workers, who were holding talks yesterday with the transport minister, Mr Claudio Burlando, reacted furiously to latest government plans to restructure the state system and have called a series of strikes later this month.

The railways, which have accumulated net losses of more than L10,000bn (\$8bn) in the past four years, would be split into two companies: one to manage the rail network, the other to run services and maintain and repair the rolling stock. Separate companies would also be set up to run individual train services.

Mr Burlando said the aim was to

create more competition and align the Italian railways with the general liberalisation of rail services in European Union countries. The government is also seeking to reduce costs and improve services. The unions, which regard the proposals as a first step to privatisation, were particularly angry about plans to abolish benefits such as free travel.

The government is also expected to step up the pace of the restructuring and eventual privatisation of Enel, the state electricity utility. A commission has recommended breaking up Enel into an independent transmission company controlling the grid, and various electricity production and distribution companies competing in the market.

Russian media snap at premier's prowess

By John Thornhill
in Moscow

Mr Victor Chernomyrdin, Russia's prime minister, may have welcomed the opportunity to escape his country's woes last weekend to glad-hand foreign leaders and investors at the World Economic Forum in Davos, Switzerland.

Instead, he was side-swiped by the Russian media in an unusual domestic controversy about bears.

While parts of Russia's press praised Mr Chernomyrdin for demonstrating a steady hand and a keen eye on a now notorious bear-hunting trip last month, other newspapers expressed horror that their prime minister could have shot a mother bear and her two cubs.

One Russian news magazine even likened the shooting of the cubs to "common murder".

Questioned about the incident in a Russian television interview in Davos, Mr Chernomyrdin confessed his love of bear hunting and added that he could not understand what all the fuss was about.

He claimed he had a proper hunting licence and claimed that all the bears he shot were adults.

"I would like the journalists who wrote this to have a face-to-face encounter with those cubs," he said. "I would enjoy watching that. I would have liked to see their reaction."

The controversy was ignited a week ago by Mr Alexander Minkin, a rare free spirit in the ranks of Russia's increasingly conformist journalists.

In a front-page article in the Novaya Gazeta newspaper, Mr Minkin lampooned Mr Chernomyrdin's hunting expedition, parodying the semi-official press for glorifying their leaders' physical prowess.

"Accordion players, cooks, conductors of military orchestras - we are glad that our leaders have such abilities, although this has no relationship to the management of the state," Mr Minkin wrote in typically sardonic style.

The newspaper even reproduced a famous painting by Ivan Shishkin of bears frolicking in the woods, and drove home its point by blotting out the cubs.

Quite why Mr Chernomyrdin's hunting trip should have aroused such controversy is not clear. Despite a love of pets, Russians are not renowned for their defence of animal rights, even though the bear is one of the nation's symbols.

Moreover, Mr Chernomyrdin's love of hunting is nothing new. Indeed, the prime minister has concluded some of his most successful deals while popping off wildlife.

It was at a hunting lodge outside Moscow that Mr Chernomyrdin had a famous meeting of minds with Mr Michel Camdessus, the central bank of the International Monetary Fund. That encounter led to a big injection of financial support.

Mr Chernomyrdin is trying to shrug off the controversy as he heads off tomorrow to the US for in-depth meetings with Vice President Al Gore.

It is a fair bet, though, that bear hunting will not form part of their programme.

Socialists defy pressure for Bulgarian poll

By Theodore Troev in Sofia

Bulgaria's governing Socialist party yesterday ignored weeks of demonstrations by the public demanding early elections and approved a new cabinet.

About half the ministers, including the finance minister, Mr Dimitar Kostov, were in the previous administration. The new faces represent a retreat from the Socialists' initial hopes of forming a broad cabinet of experts who would win wide acceptance.

Protests and public transport strikes paralysed the country yesterday and are expected to be repeated today.

The opposition, led by the Union of Democratic Forces, has rejected all offers by the Socialists to join a coalition. Its leaders fear that any compromise with the BSP would shatter their credibility with demonstrators.

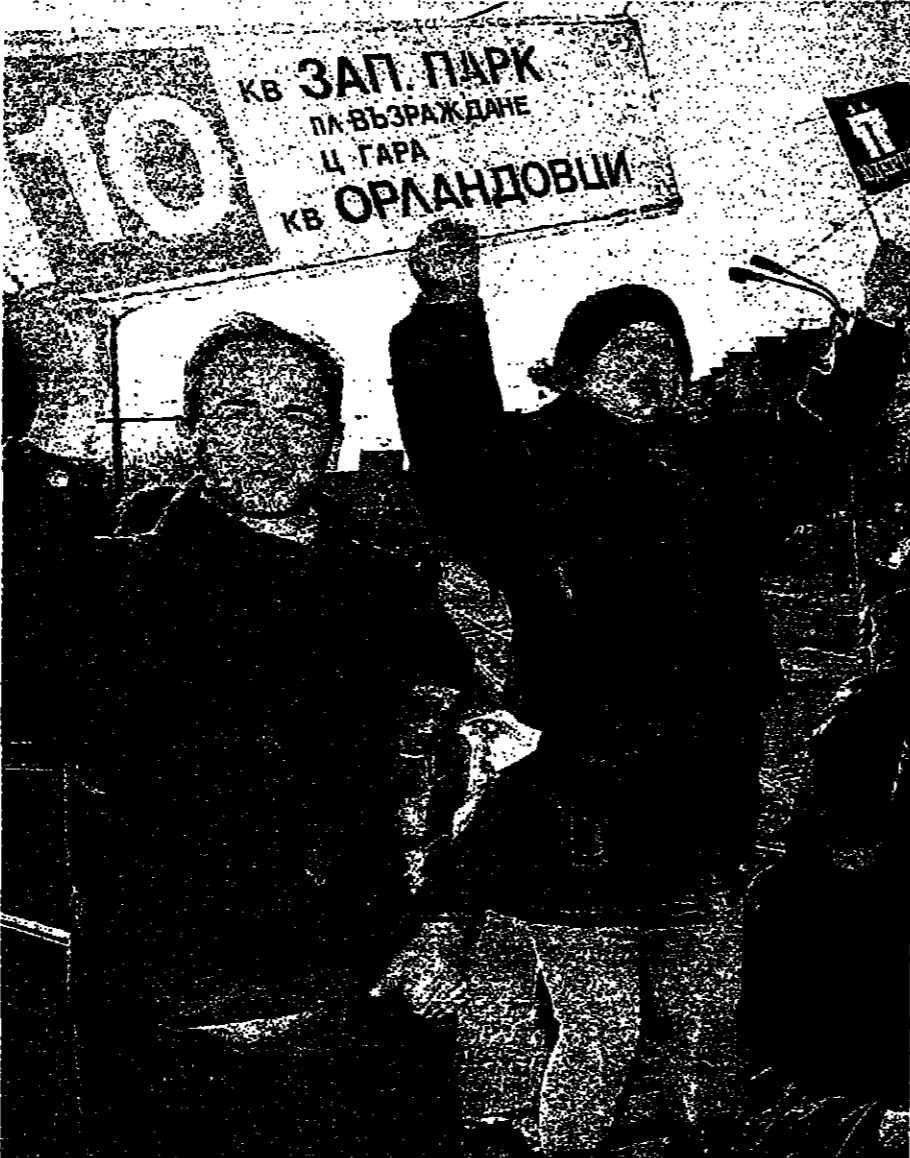
The Socialists insist that the only way out of the deepening financial crisis is to form a government that would work under the current parliament to introduce as quickly as possible an IMF-backed currency board regime designed to restore

credibility in the currency, the lev. They hope the new cabinet will be voted through parliament tomorrow.

Any further delay in dealing with the onset of hyperinflation and with such urgent issues as financial restructuring threatens a total collapse of the economy. Experts from the National Statistics Institute estimate January inflation at 47 per cent, Bulgaria's highest ever monthly figure.

Fears that continuing political deadlock and the delayed introduction of an IMF-backed currency board are leading to hyperinflation and a second default on Bulgaria's \$10bn foreign debt prompted Mr Michael Camdessus, IMF managing director, to write to President Petar Stoyanov last week. He insisted that the president impress on political parties the enormous social price of further delay in solving the country's crisis.

However, it is questionable whether a cabinet formed by the BSP at a time of nationwide public discontent could have enough support to implement the tough fiscal regime needed.



Striking Bulgarian public transport workers shout slogans as they demonstrate on the streets of the capital, Sofia, yesterday

Belgian tax raid on minister's aides

By Neil Buckley in Brussels

Police yesterday raided the Belgian finance ministry, including the offices of aides to the finance minister, Mr Philippe Maystadt, as part of an inquiry into allegations of tax fraud by Belgian banks.

The judicial police were simultaneously interviewing staff of Kredietbank, the

country's second biggest bank, but refused to say whether the two cases were linked.

Kredietbank has been under investigation in recent weeks for alleged tax evasion. Its independently run sister bank, Kredietbank Luxembourg, also owned by the Antwerp-based company Alimant - has been the subject of a probe by Belgian tax authorities since last year.

Belgian media have published documents suggesting that Mr Maystadt's aides intervened in 1995 to reduce a penalty paid by Krediet-

bank in connection with tax evasion on bureau operations in the late 1990s.

The fine paid by Kredietbank was reduced from 50 per cent of the BFr155.2m (\$4.6m) involved - as originally agreed with the tax authorities - to 40 per cent following an order reported to have emanated from the finance ministry.

Mr Maystadt has repeatedly denied having intervened in the case, and officials at his ministry said his personal office was not involved in yesterday's raid. However, the offices of his aides were searched.

Mr Maystadt said this weekend he planned to stand down as finance minister at the next general election in 1999, when he will have been in the job 10 years. The francophone Socialist party has been tipped as a possible successor to Mr Michel Camdessus as managing director of the International Monetary Fund.

The raid is another blow to the image of the Belgian government, already rattled by recent scandals.

Mr Jean-Luc Debaene, the prime minister, said yesterday that he had no plans to reshuffle his centre-left gov-

ernment after a new corruption controversy erupted last week. There was "not a single reason" to expel the francophone Socialist party from the four-party coalition government - as opposition parties have demanded - in spite of the arrest of two former senior Socialist officials.

The two, Mr Merry Hermans and Mr François Piro, were charged with corruption as the result of a long-running probe into contributions to party funds by Dassault, the French aviation group. Dassault and the officials have denied any wrongdoing.

Far right candidate tops first round in French local election

NF may capture fourth town

By David Buchan in Paris

The far-right National Front stands a good chance of capturing a fourth town in southern France next week-end after its candidate topped the poll in Sunday's first round municipal election in Vitrolles, near Marseilles - 10 percentage points ahead of the socialist mayor.

Yesterday the candidate of the ruling centre-right majority, who came third with 16.3 per cent, pulled out of the election, after party

leaders, including Prime Minister Alain Juppé, who heads the RPR Gaullists, urged him and his supporters to follow "republican values" in the run-off on February 9 - effectively to vote socialist to prevent the NF candidate, Mrs Catherine Mégret, from winning.

France's mainstream left and rightwing parties are increasingly supporting in the second round whichever of their respective candidates does best in the first round against the NF. Last

November in Dreux, near Paris, the withdrawal of the socialist candidate after the first round helped the centre-right beat off the NF.

The presence of the NF in many of France's 22 regional councils is also destabilising local government. Last month, the central government had to take over budgetary responsibility for the Paris region after the centre-right RPR and UDF coalition lost its majority because it refused to do a deal with the NF.

Neither the ruling RPR-UDF coalition nor the opposition Socialists like such tactics, which cloud the policy differences they are trying to stake out in the run-up to the 1998 parliamentary elections.

Some of the 16.3 per cent won by the RPR-UDF candidate will undoubtedly go to the NF next Sunday, but some will probably evaporate into abstentions. In 1995, the NF won the southern towns of Toulon, Orange and Marseigne.

EUROPEAN NEWS DIGEST

Stand-off in Serb capital

Serbian riot police confronted tens of thousands of anti-government demonstrators in the centre of Belgrade yesterday after a night of clashes in which scores of protesters were injured. Leaders of the opposition coalition Zajedno (Together) called on a vast crowd to join them in a protest march through the city but they were blocked by hundreds of armed riot police.

Mr Vuk Draskovic, head of the Serbian Renewal Movement, urged demonstrators to avoid confrontation. Democratic party officials said the situation after 11 weeks of non-stop protests was deteriorating and they feared President Slobodan Milosevic's government was looking for a pretext to impose emergency rule.

The mandate of the Socialist council which governs Belgrade expires today and opposition leaders feared Mr Milosevic would impose direct central government control over the city rather than reverse the annulment of opposition victories in municipal elections last November which led to the demonstrations. Guy Dinmore, Belgrade

Bomb wrecks minister's car

A bomb last night ripped apart the official car of Mr Andrei Vavilov, Russia's deputy finance minister, in what appeared to be the first criminal attack aimed directly at a senior government member. No injuries were reported in the explosion which took place close to the finance ministry.

Mr Vavilov, who leads a high-profile social life, has developed close ties with various banking and business interests. His official brief touches on several controversial areas such as tax collection and government financing. Dozens of business leaders have died in contract killings in recent years. John Thornhill, Moscow

Blum pension plan backed

Mr Norbert Blum, Germany's labour and social affairs minister, has won important backing from within the governing Christian Democratic Union for his plans to restructure the country's pay-as-you-go pension scheme. A group of CDU pension specialists yesterday came out in favour of his proposal to reduce pensions to 64 per cent of average earnings by 2030 from around 70 per cent at present, and to set up a "family fund", financed by indirect taxes, to carry some of the burdens at present put on state pension insurers.

Marking an advance for Mr Blum in the power struggle over tax and pension reform that is dividing Chancellor Helmut Kohl's coalition, the CDU pension experts rejected by 20-4, with four abstentions, proposals put forward by a government commission on tax reform, chaired by Mr Theo Waigel, the finance minister, for increased taxes on pensioners with incomes above average.

Mr Blum's plan will be discussed by the CDU leadership in Bonn tomorrow. Meanwhile, the Free Democrat party, junior member in the coalition, called yesterday for a new joint commission of the government parties to harmonise the proposals. Peter Norman, Bonn

Madrid traffic fines debacle

Madrid's city council yesterday reversed plans for privatising traffic fines and said it was cancelling a contract with the US computer services group EDS. Mr Pedro Bujidos, the city's finance chief, said the severance terms, including a claim for damages, had been referred to the council of state, the top consultative body.

The turnaround, a severe embarrassment to the city's conservative administration, follows allegations of irregularities at a local subcontractor hired by EDS to serve notices of fines. The subcontractor, Servico, is accused of claiming payment for jobs which it did not carry out. EDS, which began processing fines in the capital last September, broke off with Servico the following month and informed the authorities. But its own deal was suspended in December pending an investigation.

The US company, already deep in controversy over government contracts in the UK, is believed to have invested several million dollars in computer and office facilities for the project. David White, Madrid

French car sales tumble

French car sales in January were a third lower than in the same month last year, reflecting the phasing out of government financial incentives to encourage the buying of new cars. There were 122,552 new cars registered during the month, against 184,541 in January 1996, according to figures from the industry association. French cars represented 53.4 per cent of the market.

The decline was also partly blamed on an exceptionally strong performance in January last year, reflecting the recovery after strikes at the end of 1995. Eliminating this effect, the reduction for January was estimated at 25 per cent. Andrew Jack, Paris

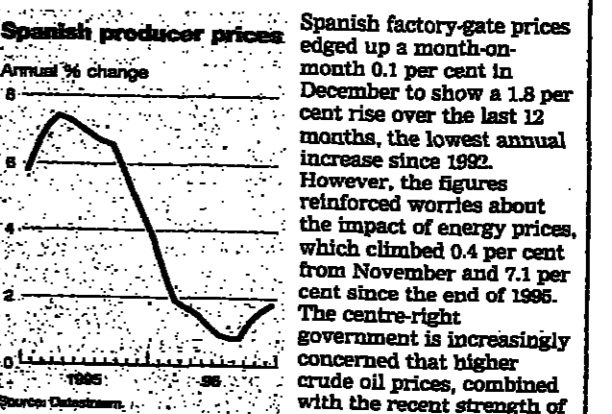
Malta ship yard taken over

Malta's new Labour government has taken over Malta Drydocks, the island's ailing commercial ship repair yard. Legislation ending 22 years of self-management by the 3,000-strong workforce was rushed through parliament over the weekend with the full backing of the opposition Nationalist party. A nine-man council has taken overall control from a workers' elected council and will report directly to the government.

Mr Alfred Sant, the prime minister who came to power at last October's general election, has made clear that losses at the former British naval yard, which totalled Lm13m (\$34m) last year, were unacceptable. He discussed the changes with dockyard employees before they were approved by parliament. Godfrey Grima, Valletta

ECONOMIC WATCH

Spanish price rises slow



imports are denominated, could impede its efforts to bring inflation into line with the qualifying criteria for the European single currency. The rise in consumer prices last year was reduced from 4.3 per cent to 3.2 per cent, the lowest level for more than a quarter of a century, and the government is aiming at a 2.6 year-on-year rate at the end of this year. However, recent heavy rains and frosts threaten to push up fresh food prices in the coming months.

European Union consumer prices rose a provisional 0.2 per cent in December from a month earlier and rose 2.2 per cent year on year, the Eurostat statistical office said.

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Boost for Italy's bid to be in first Emu wave

By Lionel Barber in Brussels

Italy's bid to qualify for economic and monetary union (Emu) received a boost yesterday after the EU's statistical watchdog approved budget measures trimming the Italian public deficit by 0.26 per cent in 1997.

However, Eurostat delayed passing judgment on Italy's tax for Europe, the government's main off-surge on income tax bills. The Euro-tax, worth around 0.5 per cent of GDP, is viewed as critical for Italy's uphill bid to be a founder member of Emu.

The accounting guidelines published by Eurostat yesterday are

intended to create a level playing field covering the treatment of economic statistics ahead of Emu's planned launch on January 1, 1999.

The goal is to avoid charges of "creative accounting" which erupted last year when Eurostat approved a one-off FF37.5bn (\$6.78bn) payment from France Telecom to the Paris government.

The payment covered pensions liabilities amounting to 0.5 per cent of French gross domestic product.

During a one-hour news conference at the European Commission yesterday, a senior Eurostat official defended their agency's

independent status and explained at length the treatment of several key issues.

● Capitalised interest on deposits. Eurostat approved Italy's decision to record interest on Italian postal bonds worth L5bn (\$3.1m) (0.26 per cent of GDP). The Commission has already factored in the sum into its forecast of 3.3 per cent for Italy's budget deficit in 1997, just above the Maastricht target of 3 per cent.

● Gold sales. Eurostat sanctioned the Belgian government's use of profits from gold sales to reduce its huge stock of official debt, double the Maastricht target. However, it ruled that such

sales could not be used as a device to reduce deficits.

● Financial leasing. Receipts from the sale of property or land can be used to cut the annual deficit. Buy-back clauses are contingent liabilities which are not recorded in the government debt. Depending on the treatment, the UK could book an extra £100m (\$160m) (0.13 per cent of GDP).

● Fungible bonds. France won approval for these bonds which are issued in tranches without changes in the date of payment of the coupons. The French authorities have already booked the item - worth 0.18 per cent of GDP in the 1996 accounts

● Swaps on interest rates and currency swaps. Finland and Austria are affected. Eurostat has ruled that only net payments of interest between the two parties should be recorded.

● Zero coupon bonds. After a majority vote by the relevant Eurostat committee, the agency will treat the difference between the issue price and the redemption price as interest, to be recorded as interest paid at the maturity of the bond.

In accounting terms, the controversial aspect of Italy's Euro-tax is its provision for a future partial refund.

Eurostat must also decide how

to treat the debt of Italy's state-owned national railways, private sector financing of public infrastructure, and state guarantees, a delicate issue in Germany.

Eurostat's rulings are only the first hurdle for countries seeking to join monetary union.

They must also convince the European Monetary Institute and the European Commission that they have met the Maastricht targets for inflation, debt, deficits, and exchange rate stability in a sustainable manner. EU leaders will make the final decision in spring 1998 on which countries have qualified for Emu. Commodities, Page 32

Banks 'slow in preparing for Emu'

By George Graham, Banking Correspondent

Only one bank in four has yet begun to change its computer systems to handle monetary union, according to a survey of European financial institutions by Gemini Consulting, the management consultancy arm of the Cap Gemini computer services group.

Although 85 per cent of the bankers surveyed by Gemini believed the single currency would be introduced on time, 91 per cent said they had still received no clear statement from their software suppliers about what needed to be done to make their programs handle the euro.

Six out of ten believed that the UK banking industry would still be

Eleven per cent of banks had not even started preparations

unprepared for Emu by January 1, 1999, when Emu is scheduled to begin.

Mr Jo Owen, vice-president of Gemini Consulting, said the survey contained a stark message about the preparations for Emu.

"Although the current debate is sharply focused on the macroeconomic and political aspects of the euro, the underlying reality is that the banks and other financial institutions may not be ready to handle the euro," he said.

Besides the 25 per cent who said they had started work on systems changes, another 26 per cent said their assessment of the impact of Emu was complete.

But 48 per cent said they were still "getting organised" while 11 per cent admitted they had not even started.

Right rate for euro is fraught with difficulty

Make the wrong decision and the ensuing currency speculation could jeopardise the chances of a smooth start to Emu, writes Andrew Fisher



Preparing for Emu

As preparations for European monetary union intensify, attention is turning to an issue that makes bankers recall past waves of currency speculation with a shudder - how to fix the rates for converting currencies into the euro.

Should the conversion rate be based on the final working day of 1996, as an independent Brussels-based think tank proposes? Or should it be based on an average of the market rates up to Emu's scheduled start in 1999, as many economists believe?

If the wrong decision is taken, the ensuing currency speculation could jeopardise the chances of a smooth start to Emu.

The Centre for European Policy Studies (CEPS), chaired by Mr Helmut Schlesinger, former Bundesbank president, has just presented its latest report, entitled *The Passage to the Euro*.

It favours using market rates on the last business day of 1996 as the basis for conversion, but German

bankers in Frankfurt believe this would be an invitation to speculation.

They especially dislike the suggestion that governments and central banks of chosen Emu member countries should set bilateral target rates to be reached at the end of 1998 (say, for the D-Mark against the French franc) and commit themselves to defending these, if necessary by intervening if rates moved 0.5 per cent above or below the target.

"This would be like letting the lions turn on the lion tamer," says Mr Werner Becker, a senior economist at Deutsche Bank Research, recalling previous speculation against European currencies whose exchange rates were regarded as unsustainable.

A member of the CEPS working party which worked on the report, he states in a minority opinion that it would be better to take average rates over two years up to Emu's start.

This would avoid volatility and "the risk of arriving at a conversion rate that would not be in line with fundamentals".

He and others also think it vital that the method of calculating the conversion rate be made known in advance,

possibly just after Emu members are named in the spring of next year. Otherwise, says Mr Martin Hüfner, chief economist of Bayerische Vereinsbank, "we could be sitting on a time bomb".

The CEPS argues that the use of average market rates could create considerable legal and practical difficulties.

CEPS's view, would thus be to take the market rates at the end of 1996.

It gives a hypothetical example of what might happen if the D-Mark were considered over-valued (on economic fundamentals) when the time came to convert it to the euro.

If governments decided its conversion rate against the French franc should thus be

banks' strong views on this.

Bankers in France, the UK and Belgium were less insistent, he said.

Admitting that there was a legal "grey area" over fixing the conversion rates, he said a market average would not necessarily solve this.

Target rates - with the final conversion rate likely to be at or close to the midpoint of the agreed range - would be the best answer.

It is not only bankers who disagree. Some central bank and monetary officials also take issue with the CEPS and, therefore, favour a market rate average.

Economists argue that the foreign exchange market will follow closely the progress of the average as it narrows down to a concluding rate on the day before Emu.

The use of any other method than a market average would be "absolutely crazy" in the view of Ms Alison Cottrell, economist at PaineWebber International in London.

By taking an average, any unforeseen economic and currency shocks could be absorbed.

She believes the market will pay close attention to November's next convergence report by the Euro-

pean Monetary Institute (EMI), forerunner of the European central bank, on how countries are progressing towards Emu.

If the political choice of Emu members is out of line with the European Monetary Institute's views, speculation could become intense

"Any difference between market rates and the final conversion rates would create losses or profits for citizens of some member states, which would contradict assurances made to the public," it says.

The Maastricht treaty lays down that fixing of final conversion rates should not affect the external value of the Euro, the European basket of currencies.

The best way to avoid legal challenges to the value of the single currency, in the

adjusted by 1 per cent against the market rate, German savers would get 1 per cent fewer euros and French savers more.

"The loss [to Germans] could thus easily amount to DM30bn (\$18bn)," it says. Hence its proposal that central banks should agree in advance the conversion rates they want to achieve.

Mr Daniel Gros, the senior CEPS research fellow who presented the report in Frankfurt, said that he was surprised at the German

regional officials, is more efficient and cuts fraud. Mr Juan José Ibarretxe, the region's vice-president, responsible for finance, told a recent Madrid conference: "If we Basques manage our receipts and expenditures well, we will obtain a comparative advantage. But if we do it badly nobody will come to pay for our mistakes."

The region also offers tax breaks for new companies setting up, on a declining scale over the first four years. This says, Mr Olmos, simply matches conditions across the border in France.

"Instead of criticising, why doesn't Madrid do the same?" he asks. "I have no problem if other regions copy us. But we don't want to be left behind in competition with other European countries."

Mr Baltasar Errasti, chairman of the Basque employers' organisation Confesbask, says the region is no tax haven, but its fiscal "peculiarities" add to an improving investment climate. New arrivals include Korea's Daewoo group, which is building a P11.8bn (\$55m) refrigerator factory outside Vitoria.

Coopers & Lybrand, the UK-based accountancy group, moved its Spanish registered office from Madrid to Las Arenas, near Bilbao, six months ago "principally for tax reasons," according to Mr Colin Blessley, partner in charge of corporate finance in Spain.

A condition of fiscal domicile is that companies carry out at least 25 per cent of their business in or from the region, but the firm already had a large practice there.

It wanted its revenues to be counted for tax purposes when they were received rather than invoiced. "The central tax authorities didn't quite see eye-to-eye with us," admits Mr Blessley. But the Basque tax people have been "very co-operative," he says. "The rate of corporation tax, obviously, is an additional attraction."

Basques upset Madrid with tax incentive plans

A lowering of the corporate tax rate faces a legal challenge from Spain's central government. David White reports

Tax competition between states to attract companies has become a controversial issue in the European Union but in Spain the Basque region has opened a new dimension by imposing lower corporate taxes than the rest of the country.

The decision by the three provinces making up Spain's autonomous Basque region to lower the standard corporate tax rate on 1996 profits from 35 to 32.5 per cent faces a legal challenge from central government. But Basque officials are confident they are within their rights.

Mr Fernando Olmos, finance chief for Vizcaya province, the industrial powerhouse based on the city of Bilbao, says the regional initiative is unique in the EU. The centre-right Spanish government launched its bid to block the measure was introduced, fearing "fiscal dumping" would distort internal competition.

Neighbouring La Rioja, run by Spain's governing Popular party, unsuccessfully sought an injunction to suspend the Basque measure. Others, such as Galicia, threatened to demand similar tax-decision powers.

And Mr Juan Carlos Rodríguez Ibarra, Socialist president of rural Extremadura, jokes that newspapers may soon be running small ads next to the offers of sexual services: "Corporate tax, 10 per cent discount, make your payments in Vizcaya!"

The central government countered by slipping a last-minute amendment into its 1997 budget, cutting five points off small companies' tax rate for their first P11.5m (\$108,000) profit.

Under a special deal distinct from Spain's other 15 regions, the Basque country and next-door Navarre are responsible for collecting taxes themselves, paying part to Madrid.

Up to now Basque taxes, although levied by provincial authorities rather than

the Spanish inland revenue, have been basically in line with the national rates.

The corporate cut is designed to attract more investment to a region recovering from the decline of old heavy industries and still suffering the impact of terrorist violence and black-mail threats. In the 1970s and 1980s, a number of companies moved out to other regions or even France.

Vizcaya's elected provincial council initially proposed reducing the rate to 30 per cent, but settled with the other two Basque provinces Guipúzcoa and Alava on a halfway compromise. Says Mr Olmos: "Companies make their decisions for many reasons. What we don't want is that tax should be an obstacle to their coming."

While clashing with the Basques over corporate tax, the minority Popular party government has agreed to other concessions in exchange for support in the Spanish parliament from the five MPs of the Basque Nationalist party, which heads the Basque region's coalition administration.

The current system of special "economic agreements" dates from 1878, when it was introduced to compensate for the abolition of the region's ancient privileges. Quashed by General Franco in 1937 after his troops had taken Bilbao - in a decree citing the "treachery" of Vizcaya and Guipúzcoa - it was revived under the Basque

annual "donations" were voted on and sent to the capital. The current system of special "economic agreements" dates from 1878, when it was introduced to compensate for the abolition of the region's ancient privileges. Quashed by General Franco in 1937 after his troops had taken Bilbao - in a decree citing the "treachery" of Vizcaya and Guipúzcoa - it was revived under the Basque

autonomy statute of 1979. Each Basque province is responsible for tax collection, including value-added tax. A cut goes to Madrid for centrally run functions such as defence, foreign affairs and the monarchy. Basques pay a set 6.24 per cent of these costs. The rest of their tax take goes to the regional government and municipal and provincial councils. Handling taxes locally, say

regional officials, is more efficient and cuts fraud. Mr Juan José Ibarretxe, the region's vice-president, responsible for finance, told a recent Madrid conference: "If we Basques manage our receipts and expenditures well, we will obtain a comparative advantage. But if we do it badly nobody will come to pay for our mistakes."

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handling taxes locally, say

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NEWS: INTERNATIONAL

Zaire's civil war gathers pace

Country is poised to become Africa's battleground, says Michela Wrong

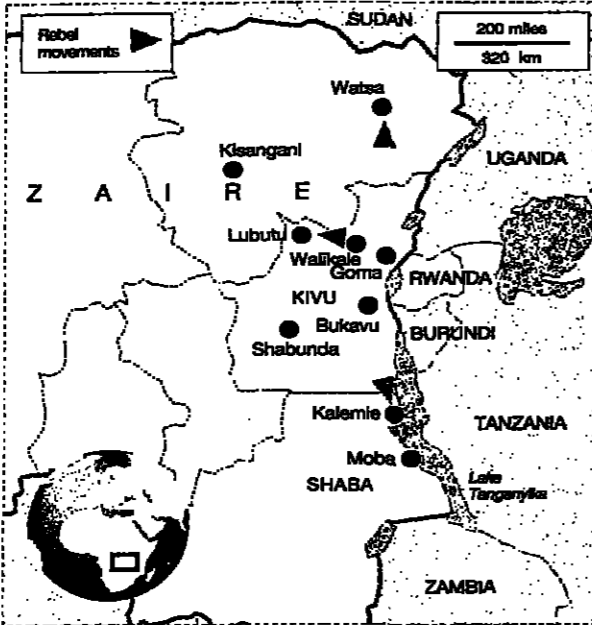
Zaire's civil war seemed doomed to rapid escalation yesterday when the defence ministry said that three African allies - Morocco, Togo and Chad - had offered to send troops to counter a rebel attack in the east of the country.

The announcement, which coincided with the start of a three-day visit by Zaire's ally, President Mobutu Sese Seko to the Moroccan capital, Rabat, came as the rebels extended their control south into the copper-rich Shaba province. They had seized the port of Kalemba on the shores of Lake Tanganyika and were advancing on Moba.

A ministry official said Morocco, Togo and Chad were all prepared to send troops and equipment to halt the advance of the Tutsi-dominated Alliance of Democratic Forces, and Egypt had offered equipment for Zaire's infantry. "The planes for this operation have already been chartered," he said. However, no date was given for their arrival.

He added that a recruitment campaign, aimed at forming 13 commando brigades of 2,000 men each, had been launched and China and Israel, which have a history of military co-operation with Zaire, would train the new recruits.

The announcement of foreign intervention conjures up memories of the 1970s, when African and western forces repeatedly leapt to



Zaire's defence after rebel invasions of Shaba placed its territorial integrity in question. Coinciding as it does with growing signs that Zaire's neighbours to the east - Uganda, Rwanda and Burundi - are crossing the border to help the rebels, it raises the frightening prospect of African troops fighting each other on Zairean soil.

By calling on his allies for help, Mr Mobutu, who returns to Kinshasa on Saturday, is acknowledging that the presence of 300 foreign mercenaries has not been enough to turn the tide of

the war. The mercenaries have been flown to the eastern town of Kiangani, the main army base in the region, and have been equipped with Russian and French helicopters and Italian jets.

But the "total and devastating" government counter-offensive promised last month triggered attacks in the south, west and north by rebels intent on stretching Zairean lines as thin as possible and exporting their revolt to Shaba and Upper Zaire.

While located a long way from Zaire's mines, Kalemba, the hub of a rail network

serving the copper belt, still represents a serious loss. It is the birthplace of Mr Laurent Kabila, the rebel leader, who is clearly hoping to fan strong existing secessionist feelings in Shaba province, which declared autonomy from Kinshasa a few years ago.

The rebels were reported to be advancing simultaneously in the far north and to the east of Kiangani. Wata, south of the border with Sudan, was said to have fallen and guerrilla forces were surrounding Lubutu.

The unchecked string of rebel successes has lent credence to Zairean claims that Uganda and Rwanda have infiltrated the area to hasten the downfall of a regime they despise.

While both countries reject the accusations, saying Zaire is looking for scapegoats for its own abysmal military performance, western governments warned at the conflict's potential for regional destabilisation are growing increasingly uneasy.

Belgium said last week it was receiving more and more reports that Rwandan troops were in Kivu, a development it described as "unacceptable". A French spokesman said that while Paris lacked concrete proof, it was "worried" by indications of units from neighbouring countries fighting alongside the rebels.

Zaire also claimed that several hundred Eritrean, Ethiopian and Somali

mercenaries are helping the rebels train their fighters.

Many of these accusations are too wild to be credible. But analysts say that having provided the superpowers with a proxy battlefield during the cold war, Zaire is now in danger of playing host to a new, inter-African tussle, with France and the US as the western countries watching from the wings.

Rwanda, Uganda, Ethiopia and Eritrea are all in the hands of fairly young leaders hardened by years fighting in the bush. They enjoy strong backing from Washington, and are anxious to shore up their governments against the threat of Islamic fundamentalism from Sudan. Intelligent, flexible and reform-minded, these men are united in their hostility to the Khartoum regime. No respecters of colonial borders themselves, they have little sympathy for a generation of African autocrats such as Mr Mobutu who have, with France's blessing, clung on since independence.

In danger of being forgotten in this volatile scenario are the hundreds of thousands of Rwandan refugees who fled deeper into Zaire instead of returning home last November and who are now trapped by the fighting.

The UN High Commissioner for Refugees said malnutrition and cholera were rising among the estimated 200,000 people at Tingi-Tingi, east of Lubutu, Shabunda and Amisi.

Bonino anger over refugees

By Neil Buckley in Brussels

Ms Emma Bonino, European humanitarian affairs commissioner, yesterday accused the US and the rest of the international community of turning a blind eye to the suffering of up to 500,000 in Zaire.

On her return from a visit to the region which she described as a "journey to hell", Ms Bonino said she had personally seen about 200,000 refugees and believed at least 200,000 more were sheltering in the Zairean rain forest.

She said countries such as the US, with sophisticated military technology, could not be unaware of the extent of the crisis, and accused them of attempting to play down the crisis.

She warned Mr Kofi Annan, new secretary general of the United Nations, that the credibility of the UN was at stake unless it took action to deal with the crisis.

At present, only humanitarian aid agencies were taking the situation seriously.

"I am not dramatising," Ms Bonino said. "This is a scandal and unacceptable." Asked if she believed the US was deliberately trying to cover up the crisis, Ms Bonino said she had no evidence to suggest this. But if the US said it was unaware of the number of refugees, "perhaps they simply have not looked".

INTERNATIONAL NEWS DIGEST

Israel to ease currency curbs

The Bank of Israel yesterday unveiled a package of foreign currency liberalisation measures which will allow Israelis to invest freely in overseas securities markets, have fewer restrictions on holding foreign currencies and obtain it without showing travel documents.

Under current legislation, Israelis can only invest in securities traded on officially approved exchanges. They cannot invest in certain foreign mutual funds, and can only obtain foreign currency for travel abroad on presentation of a valid travel document.

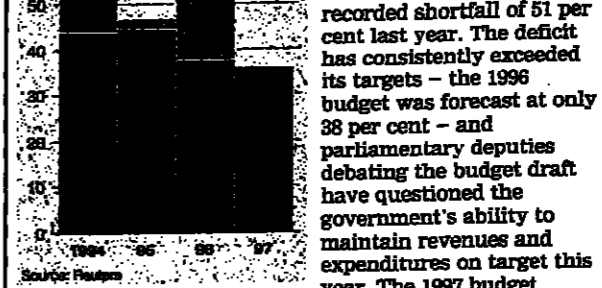
The new measures will give Israelis the choice to invest in all foreign publicly traded securities and initial public offerings - provided both are quoted on a widely available network. On the Tel Aviv stock exchange the MAOF index closed up 3.21 per cent at a two-year high of 265.63.

Judy Dempsey, Jerusalem

Lebanon in budget vote

The Lebanese parliament yesterday was set to vote on a 1997 budget which slashes the country's deficit to 36 per cent of total spending, from a recorded shortfall of 51 per cent last year. The deficit has consistently exceeded its targets - the 1996 budget was forecast at only 38 per cent - and parliamentary deputies debating the budget draft have questioned the government's ability to maintain revenues and expenditures on target this year. The 1997 budget forecasts revenues of L\$4,100bn (\$2.65bn) compared to actual revenues of L\$3,533bn in 1996. (The 1996 budget had forecast revenues of L\$4,025bn). Expenditures are expected to reach L\$6,433bn, slightly below last year's forecast of L\$6,448bn.

Roula Khalaf, London



China arms sale discounted

A South African company said reports that it was negotiating a R1bn (\$200m) arms sale to China were overblown, but disclosed that Beijing had sent a delegation to the country last year.

Mr Gordon Blackbeard, marketing director for Reutech Radar Systems, said yesterday: "Reutech was approached by China for preliminary discussions and a delegation was received in May 1996 which indicated an interest in radar products... We've had nothing further since."

Reutech said China was interested in a highly mobile two-dimensional radar system which it developed in co-operation with the government-controlled Armscor agency. But Mr Blackbeard said that after his company was asked to provide a budgetary quote, "no technology transfer was sought or offered."

South Africa's National Conventional Arms Control Committee - which vets all South African arms sales to foreign countries - said yesterday that it had not received an application on a possible deal with China from Reutech.

Reuter, Johannesburg

Israel and PLO to press ahead with talks

By Judy Dempsey and Avi Machlis in Jerusalem

Israeli and Palestinian leaders confirmed yesterday they would meet on Thursday to try to speed implementation of overdue issues, including the release of Palestinian political prisoners, the establishment of a safe Gaza-West Bank corridor and the opening of an airport in Gaza.

Diplomats said the meeting was crucial for maintaining momentum

in the peace process following the withdrawal of Israeli troops from Hebron last month which left the Palestinians with 80 per cent control of the West Bank city.

The decision to meet at the Erez border crossing between Israel and Gaza follows weekend talks in Davos, Switzerland, between Mr Benjamin Netanyahu, the Israeli prime minister, and Mr Yasser Arafat, president of the Palestinian Authority.

Mr Netanyahu also said at Davos

he would try to curb the number of foreign workers entering Israel, who officially total 104,000 and have taken many of the jobs originally held by Palestinians.

The Palestinians have not been allowed to work in Israel until recently because of the closures imposed on the West Bank and Gaza early last year by the Israeli government.

The record of the Palestinian Authority's human rights in its self-ruled areas came under closer

scrutiny yesterday. Officials confirmed Mr Yusef Ismail al-Baba, 32, had died in a local hospital after being tortured by Palestinian security forces in the West Bank city of Nablus at the weekend.

Mr Freih Abu Meddelin, the Palestinian justice minister, said that Mr al-Baba, a Nablus resident, died of injuries sustained after being tortured by his Palestinian interrogators. He had been detained without a warrant since January.

The justice minister condemned

the incident and said that an investigation had been launched.

Palestinian human rights organisations said torture had become commonplace in Palestinian prisons. The Palestinian Society for the Protection of Human Rights said that nine people had been tortured to death since the Palestinian Authority began assuming control of parts of the West Bank and Gaza Strip in 1994, under peace deals between the Palestine Liberation Organisation and Israel.

NEWS: WORLD TRADE

Beijing in tough line on dumping

By Tony Walker in Beijing

China is threatening to take anti-dumping measures against imports of colour film, plywood, asbestos, steel and household appliances under proposed rules reflecting growing concerns about pressure on domestic industry.

China's threats to adopt a tough anti-dumping regime is also in response to dozens of actions launched recently against Chinese exports, many by the European Commission.

Mr Zhang Yunging, deputy director general of the Ministry of Trade's treaty and law department, told the China Daily Business Weekly that China planned to issue anti-dumping laws while protecting domestic exporters in anti-dumping cases abroad.

"Lack of suitable laws" made it hard for China to take action, but the ministry had submitted new anti-dumping rules to higher authorities for approval.

"In a world where tariff and non-tariff barriers decrease rapidly, anti-dumping measures are becoming increasingly important in protecting domestic manufacturers," Mr Zhang said.

Recent actions abroad involved some of China's main exports such as bicycles, televisions, fabrics, shoes and bags. This had forced key exporters to "retreat" from traditional markets.

He described many dumping charges as "unfair and discriminatory" and accused countries of wilfully reaching "erroneous conclusions" in calculating prices of Chinese products.

A seminar held recently by China's State Economic and Trade Commission heard complaints that protective tariffs and non-tariff barriers had fuelled an "import boom". Participants accused foreign companies of dumping low-priced products.

Study predicts integrated 'hub in the home' systems by next century

TV revolution 'will fuel sales'

By Alice Rawsthorn

Television screens which hang on walls like paintings will become the hub of integrated entertainment, information and communication systems in the homes of the next century.

A study* by Euromonitor, the market research consultancy, predicts that these multifunctional flat screen televisions will become the control centres for all the electronics products used by consumers in their homes, including radios, televisions and personal computers.

The transformation of the television screen into a key part of home entertainment and communications systems, coupled with the development of new digitised portable products, should stimulate consumer electronic sales after the sluggish period experienced

| Forecast world consumer electronics market, by region, by value | | | | | |
|---|---------|---------|---------|---------|---------|
| | 1996 | 1997 | 1998 | 1999 | 2000 |
| Asia | 40,193 | 42,774 | 46,257 | 49,028 | 50,548 |
| Western Europe | 38,603 | 39,748 | 40,607 | 41,417 | 42,211 |
| North America | 31,685 | 32,024 | 32,678 | 33,219 | 33,775 |
| Eastern Europe | 7,761 | 8,034 | 8,247 | 8,468 | 8,694 |
| South America | 4,551 | 4,690 | 5,194 | 5,466 | 5,752 |
| Australasia | 2,126 | 2,192 | 2,185 | 2,215 | 2,246 |
| Middle East | 1,504 | 1,670 | 1,758 | 1,789 | 1,844 |
| Africa | 1,255 | 1,333 | 1,408 | 1,449 | 1,490 |
| World Total | 127,686 | 132,914 | 137,940 | 142,283 | 146,996 |

Source: Euromonitor

in the early 1990s. Euromonitor estimates that global consumer electronics sales rose from \$117.13bn in 1992 to \$127.65bn in 1996.

This was an increase of 9 per cent over five years, which means that the market contracted in real terms. It anticipates a modest

improvement in trading conditions during the late 1990s with sales showing average annual growth of 3.6 per cent (at 1996 prices) until the year 2000, when the global market should be worth \$146.99bn.

This growth will be fuelled by the launch of new digital television services and asso-

ciated products such as digital video cassette recorders and satellite equipment, as well as new home entertainment and digital video disc systems.

However, Euromonitor warns of continued pressure on retail prices, which was one of the chief contributors to the industry's difficulties in the early 1990s.

Sales should be concentrated in five countries - the US, Japan, Germany, China and the UK - although their market share is expected to fall from last year's 62 per cent to 53 per cent by 2000, as growth accelerates in Latin America and elsewhere in Asia.

By contrast, the consumer electronics industry is still relatively fragmented.

Only two companies command more than 10 per cent of the global market: Sony and Matsushita of Japan

with 17 per cent and 13 per cent respectively. Philips of the Netherlands has a 9 per cent share, followed by France's Thomson and Japan's Sharp, both with 6 per cent.

These companies are already developing new products such as flat television screens, which will soon go on sale, albeit at extremely high prices.

Other innovations include windows televisions with wide screens which are capable of displaying different windows for information or entertainment, along with advanced televisions that can perform the functions of personal computers, games consoles and home theatre systems.

*The World Market For Consumer Electronics, available for £4,950 from Euromonitor, 60-61 Britton Street, London EC1M 3NA. Tel: 0171-251 1105.

Ecuador call for bids to build oil pipeline

By Justine Newsome in Quito

The Ecuadorian government has called for private bids to build a second 514km oil pipeline under a 20-year operating concession.

The existing 500km state pipeline, built in 1972 and already expanded twice, is at the limit of its transport capacity.

By pumping up to 50,000 barrels a day through Colombia and using anti-friction chemicals, Ecuador can currently produce a maximum of around 385,000 b/d.

"The new pipeline is an incentive for companies at the exploration stage," according to Mr Alvaro Caravia, commercial manager of Techint, an Argentinian company in a consortium interested in bidding for the \$400m project.

The new pipeline, called SOCO, is exclusively for heavy crude.

It will run from Sacha to

Balao on the north-western Pacific coast.

The existing pipeline, SOTE, will be able to maximise transport of lighter crude, currently mixed with heavier, enabling Ecuador to target different markets.

The new route starts in the heart of Ecuador's oil-producing region, where state company Petro-Ecuador's fields are located. It passes through a zone containing most of the blocks awarded to the private sector in the country's seventh and eighth rounds in 1995-96, before meeting the SOTE pipeline at Baeza.

It then runs parallel to but independent of the SOTE to the coast.

Construction costs will be reduced by using the same route as the SOTE, resulting in a lower transport tariff. The tariff will be the deciding basis for awarding the contract and has two components, a minimum price payable whether or not crude is transported, based on the

potential volume, and a price for the volume actually carried.

The route does not cross any national park or ecological reserve, and in the zone of earthquake risk, the pipeline will be buried to prevent disruption of supply.

The new pipeline would make use of existing port facilities at Balao, although the heavy and light crude will be kept separate. Capacity for tankers, loading and connections with a state refinery at Esmeraldas must also be expanded.

The successful contractor must also provide storage facilities for 2m barrels of crude at Balao, in case of delays in the arrival of ships collecting crude. At Sacha, it must provide capacity for 750,000 barrels to cope with any potential build-up of crude.

Past plans to increase transport capacity have not come to fruition and there is residual opposition to the latest project.

Brussels probes fax dumping

By Neil Buckley in Brussels

The European Commission has opened an investigation into a complaint from Philips of the Netherlands that exporters in Japan and six other south-east Asian countries are dumping personal fax machines in the European Union market.

The unusually broad inquiry, covering manufacturers from Japan, China, South Korea, Malaysia, Singapore, Taiwan and Thailand, was published in the EU's Official Journal, with interested third parties given until next month to submit comments.

The Commission will then decide whether there is a case to answer, after receiving the original complaint from Philips on December 20, and whether anti-dumping duties should be imposed on producers.

Philips alleges in its complaint that low-priced personal fax machines - defined as those weighing less than

5kg - from the seven countries have increased their share of the EU market significantly in recent years, with an adverse effect on EU producers.

But Japanese manufacturers, which intend to defend the case, say imports from Japan have decreased in recent years, in both unit and value terms, and that Japanese manufacturers' prices are generally higher than EU manufacturers'.

They said that leading EU producers such as Philips and France's Sagem have increased sales and production. Producers from other countries intend to put forward similar arguments.

Anti-dumping cases have declined in recent years, with the EU keen to avoid allegations of protectionism. The case will be one of the first to be subject to new Commission procedures, involving assessing likely product and market developments, rather than analyses of import patterns.

WORLD TRADE NEWS DIGEST

Long future for fossil fuels

The supremacy of the internal combustion engine and the role of fossil fuels in transport will go unchallenged well into the next century, according to a new report on the engines of the future*. Fossil fuels will continue to provide 80 per cent of the world's energy needs for at least 50 years, while 90 per cent of vehicles will have conventional engines for the next 10-15 years.

Forecasts that environmentally friendly battery-powered cars will gradually replace the internal combustion engine have been downgraded because of difficulties in battery technology. The drawback remains cost and low storage capacity.

Research into alternatives to battery power has been stepped up, however. Studies into fuel cell technology, whereby liquid fuel is turned into electricity without the need for combustion, is progressing more quickly than seemed possible two years ago. *Haig Simmonds, London*

*New Generation Engines - 1997 edition. Jeffrey Daniels. EAU, +44 171 630 1007. £595/\$945

Optimism on IT tariff deal

European Union officials said yesterday they were optimistic that Malaysia and some other countries would shortly join a deal to scrap information technology tariffs by 2000, bringing trade coverage to the required 90 per cent for entry into force in April.

The 29 existing participants - including the US, EU, Japan and Canada - account for nearly 84 per cent of world trade in information technology products.

In talks at the World Trade Organisation that ended on Friday, Malaysia, Thailand, India and the Czech Republic apparently agreed the initial list of products for which tariffs will be eliminated. But differences remained on their demands for an extension beyond 2000 for some products. Negotiations nevertheless came "within a whisker" of agreement with Malaysia, according to EU officials. Talks with all four countries are planned to continue until the March 1 deadline for submission of tariff schedules. *Frances Williams, Geneva*

Rolls-Royce wins SA order

South African Airways has confirmed its faith in Rolls-Royce of the UK by ordering its RB211 engine to power two new Boeing 747-400s. The order, valued at \$80m, came after Rolls-Royce said some versions of the RB211 would have to be modified after suffering turbine blade failures. Mr Mike Myburgh, SAA's chief executive, said the new aircraft, due to be delivered next year, would be used on flights between South Africa and the US. *Michael Skapinker, Aerospace Correspondent, London*

EU, US to resume talks

EU and US negotiators will meet in two weeks in Brussels to resume negotiations on a package of mutual recognition agreements after missing the January 31 deadline set by US President Bill Clinton and Mr Jacques Santer, president of the European Commission. In December, the US and EU agreed that products tested and accepted on one side of the Atlantic as meeting pre-agreed standards could be cleared for distribution on the other. This is expected to save the sectors under discussion - pharmaceuticals, medical devices, telecoms and information products and others - an estimated \$200m. *Nancy Dunne, Washington*

Handwritten signature or mark.

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WORLD TRADE NEWS DIGEST

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GROUP

Israel to ease currency curb

Israel's government announced yesterday a package of measures aimed at easing its currency controls. The package includes a 10% increase in the official exchange rate, a 10% increase in the official gold price, and a 10% increase in the official dollar price. The package also includes a 10% increase in the official yen price, a 10% increase in the official mark price, and a 10% increase in the official franc price. The package is expected to be implemented by the end of the month.

Union in budget vote

The House of Representatives voted yesterday to approve a budget for the fiscal year ending in 1982. The budget includes a 10% increase in the official exchange rate, a 10% increase in the official gold price, and a 10% increase in the official dollar price. The budget also includes a 10% increase in the official yen price, a 10% increase in the official mark price, and a 10% increase in the official franc price. The budget is expected to be implemented by the end of the month.

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Arms sale discounted

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WORLD TRADE NEWS DIGEST

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Tang touches a raw nerve in Singapore

By James Kyng in Singapore

Just over a month ago, few in Singapore had heard of Mr Tang Liang Hong, a rotund and bespectacled lawyer in his 60s who was due to run for the opposition Workers' party in the island's parliamentary elections. Today there can be few who have not heard of him.

He has become the focus of what is probably the most comprehensive court action brought by the government against an opposition politician since Singapore's independence in 1965.

Even in this legalistic country, where the government has often won court battles against political opponents, the sheer number of suits piling up against Mr Tang has ensured much media coverage and considerable private debate. The legal actions are also laying bare some of the issues which lie at the heart of Singaporean society and the identity of its government.

Mr Tang is being sued by 11 members of the ruling People's Action party (PAP), including Mr Goh Chok Tong, the prime minister, Mr Lee Kuan Yew, the senior minister and founding father of modern Singapore, Mr Lee Hsien Loong, a deputy prime minister, and other members of the cabinet.

The main accusation against him is that he defamed several among the PAP leaders by saying that they lied when they called him an anti-Christian, Chinese chauvinist



Tang Liang Hong pictured surrounded by the press during last month's Singapore election campaign

during the election campaign.

Following the election, in which Mr Tang and co-campaigners were defeated, he fled the island.

He travelled to Malaysia, then to Hong Kong and London, from where he has kept up a defence in the Singapore media by talking to journalists on his mobile phone.

His flight abroad angered Mr Lee Kuan Yew, who criticised him for attempting to portray Singapore as a "terrorist state".

When his wife, Mrs Teo Siew Har, tried to leave the country last month, authorities cancelled her travel documents. They explained

she should not be allowed to leave until the Inland Revenue Authority completes a tax investigation into the couple's finances.

Meanwhile, a court has served Mr Tang with an injunction ordering that if he sells off his property, he must set aside \$811.2m (US\$97.9m) to meet liabilities which could arise from the suits against him.

Mr Tang, who plans to sue many of the officials suing him, says that his total assets are worth much less than \$811.2m.

Regardless of how Singapore's courts find Mr Tang, questions are being raised as to whether the

country's legal system makes it too easy to sue and whether the government is concerned that the exhaustive nature of its actions against Mr Tang could prove unpopular.

The opposition was crushed in the January election, and now controls only three seats in the 83-member parliament.

Mr Goh told reporters last week "there may be some public sympathy" for Mr Tang but explained that he had no choice but to sue him to protect his reputation.

The prime minister made clear in the election campaign there are wider interests at stake. He main-

tains Mr Tang, 61, is a dangerous man who sought to exploit "fault-lines" in Singapore's multi-racial society for political gain. Race riots in the 1950s and 1960s between the ethnic Chinese majority and minority Indians and Malays have made the government vigilant for any sign of racial bigotry.

Foreign relations could also suffer from any surge of Chinese chauvinism, officials said.

As China grows more powerful over the next 20 years, the temptation among Singapore's ethnic Chinese electorate to orientate the country increasingly toward China will be strong. This course would run the risk of alienating Singapore's neighbours and closest allies in the Association of South East Asian Nations (Asean), officials said.

"We are not a Chinese nation," said Mr S. Jayakumar, the foreign minister, in an interview. "We should bear in mind that our destiny is with south-east Asia and Asean. That is a key point."

Mr Tang, talking on his mobile phone from London, said the government's arguments were all logical save for a central fact - that he was not a Chinese chauvinist.

"This is my defence. I am not a chauvinist of any kind," he said. "Look at my life. I spent about 10 years as a dancer and choreographer in the 1960s and 1970s. My favourites were Indian and Malay dances. I speak Malay fluently. I studied English at university."

Tokyo puts a brave face on land sale

By Jonathan Annelis in Tokyo

The most important auction of prime land in central Tokyo in recent years lived up to industry expectations on pricing yesterday - but failed to provide evidence that the slump in Japan's property market has bottomed out.

Japan's largest advertising agency, Dentsu, and two other consortia led by blue-chip property developer Mitsui Fudosan and Nippon Television Network Corp successfully bid ¥372.3bn (\$3bn) for three blocks totaling 5.25 hectares in Shiodome near the Ginza shopping district.

The site, an old rail freight station, formerly belonged to the government's now defunct Japanese National Railways (JNR), which was broken up in 1988. It is to be redeveloped for office and retail space, cultural facilities and residential units.

The auction had attracted close scrutiny as a benchmark of land valuations. It was held by JNR Settlement, the government-appointed agency responsible for disposing of the JNR group's accumulated debt of ¥28,000bn (\$230bn).

JNR Settlement put a brave face on the result,

even though the site was valued at ¥4,000bn at its peak in 1990.

"We hope the disposal of land will have a good effect on real estate investment and economic activity," JNR Settlement said after the auction.

After years when transactions were so few that values had to be imputed, the presence of 11 bidders and a sale at almost any price might be considered cause for celebration, but analysts were less optimistic.

The bid price was in line with their estimates, valuing the approximately 15 hectares to be sold in total at about ¥800bn, and represents an operating yield of 6.5 per cent, analysts said.

But they pointed out that the absolute cost of the land worked out at ¥7.07m per square metre, barely changed from the estimate for similar land made by the government's National Land Agency in January 1996.

Significantly, to ensure a sale, zoning regulations had been relaxed to allow a coverage ratio - the amount of construction permitted for a given area of land - two to three times greater than for existing properties, in effect halving the acquisition cost for developers.

Chinese city driven by Pearl River vision

Guangzhou is vying with rivals for foreign investment, writes Tony Walker

Mr Gao Siren, Communist party chief of Guangdong, gestures towards the murky waters of the Pearl River, and says he aims to transform the area so that it becomes "more beautiful" than the Rhine or the Seine.

It takes a leap of faith to accept Mr Gao's vision of the Pearl River waterfront with its decaying godowns (warehouses) and mildewed tenements. But behind his remarks lies a story of intense competition among China's cities to be Number One.

Guangzhou (population 6.4m) was the first city to open for business after Mr Deng Xiaoping, China's veteran leader, launched his campaign of "reform and opening" in 1978, becoming virtually a "city state" and overshadowing the commercial hubs of Shanghai and Tianjin to the north.

As capital of Guangdong, China's most dynamic province during the early reform period, Guangzhou reaped the rewards of investment from neighbouring Hong Kong. Its economic development zones achieved astonishing rates of growth, but increasing competition for foreign investment from such places as Shanghai, Tianjin and Dalian has brought Guangzhou back to the pack.

Not that its leadership can complain about continuing

rates of growth or its ability to attract foreign investors.

Mr Tang Yue Cai, director of Guangdong's Commission for Foreign Economic Relations and Trade, notes that growth in gross domestic product has averaged 14.8 per cent since 1978, well above the national average of about 10 per cent.

Per capita GDP at \$2,333 is the highest in the country and the size of Guangdong's economy - GDP reached \$14.9bn in 1995 - ranks it third among Chinese cities, behind Shanghai and Tianjin.

It is China's third biggest consumer market and the country's second most important transport hub

after Shanghai, handling a sixth of the country's imports and exports.

It has attracted some \$34.7bn in pledged foreign investment, with \$11bn utilised. This puts it third behind Shanghai and Shenzhen, the special economic zone next door to Hong Kong.

Hong Kong investors in the early 1980s poured funds into processing enterprises and later into real estate, but the high tide of Hong Kong investment has receded and the Japanese, Americans and Europeans are making their presence felt, attracted by increasingly prosperous consumers in China's southern regions.

Such companies as Procter and Gamble and Colgate have set up manufacturing operations in Guangdong, with ambitious expansion plans.

"Three years ago, there was a lot of investment in real estate, including hotels and high-rise apartment buildings," said Mr Tang, "but in the past year or so most investment has been in manufacturing."

This trend fits in with party secretary Gao Siren's vision, which is to steady the city's development after the mad rush of the 1980s and strive to improve citizens' "quality of life".

"We want to achieve sustainable economic develop-

ment by making efficient use of available resources, but we also intend drastically to improve the environment," he says.

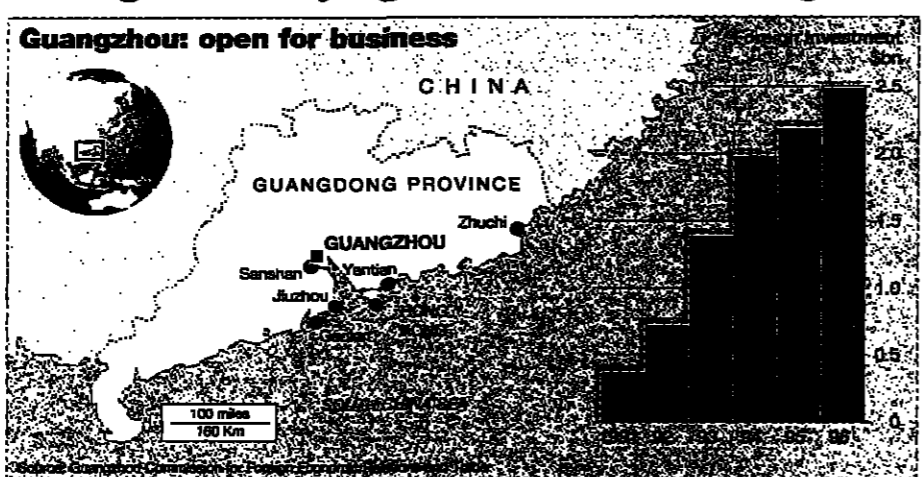
Among Mr Gao's visions is a promenade with shops and walkways which would run for some 10km along the southern bank of the Pearl River.

The city is building a new airport at a cost of about ¥12bn (\$1.5bn) and plans to extend the subway, construct two ring roads and add a light rail mass transit system to help overcome traffic congestion.

Plans are also afoot to overhaul its port facilities to take advantage of its central location as transport hub for five provinces - Guangdong, Hainan, Hunan, Jiangxi and Guangxi region, as well as the special economic zones of Shenzhen and Zhuhai.

Spending on infrastructure is running at ¥60bn-¥70bn (\$7.2bn-\$8.4bn) a year, financed partly by the municipality from taxes and about a third from foreign loans. Mr Gao estimates foreign borrowings are running at about \$2bn a year.

But he recognises that a continuing strong inflow of foreign investment is critical to Guangzhou remaining one of China's fastest growing cities, and one becoming more like Hong Kong.



Guangzhou: open for business

Mr Gao's own ambitions to rise further in the party hierarchy are also involved. At 53, he is relatively young to be party secretary of an important city. He was made an alternate member of the ruling Politburo in 1992.

Guangzhou's development zones set aside for foreign investors represent the "front line" in the city's continuing campaign to entice investors, and the Guangzhou Economic and Technological Development District is the biggest and most established of these investment areas. It has expanded to 50 sq km from 7 sq km since 1984.

Its leadership recognises the pressures to maintain levels of investor interest against strong competition from similar zones elsewhere, including particularly the Pudong development zone in Shanghai.

Ms Jiang Huiwen, head of the investment department, says competition has become "more intense". She described Pudong's momentum as "very impressive" but said that "overall competition is good for China's development".

It is also good for investors. Land prices in Guangzhou's economic zones are coming down and approval processes for new investment have been speeded up.

Jail for Shanghai securities chief

By James Harding in Shanghai

A Chinese court has sentenced the former head of one of Shanghai's biggest securities firms to 17 years' jail for embezzlement and taking bribes, drawing to a close the most spectacular scandal to have rocked China's infant capital markets.

Mr Guan Jingsheng, the flamboyant founder and chief executive of Shanghai International Securities, resigned after a huge price-rigging scandal in February 1995 that prompted the closure of the bond futures market and the realignment of Shanghai securities firms.

The Shanghai No. 1 Intermediate Court convicted Mr Guan of accepting ¥294,000 (\$35,400) in bribes and misappropriating ¥2.4m (\$290,000) in public funds between 1992 and 1994, according to Xinhua, the official government news agency. Mr Guan had been

under investigation for his involvement in the bond futures scandal for nearly two years.

The scandal involved two firms forced into dumping bond futures to push down prices on the Shanghai exchange, in an attempt to cover positions in excess of permitted limits. The final eight minutes of trading on February 23, 1995 saw paper with an underlying value of \$37bn change hands. The exchange authorities were forced to intervene, close the market in May and cancel the trades.

Mr Guan vanished within days of the fiasco, resurfacing two months later to hand in his resignation.

In the aftermath of the scandal, the China Securities Regulatory Commission, the government's stockmarket watchdog, severely criticised the lax regulation by the Shanghai stock exchange, as well as the two companies involved in the price-rigging.

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ASIA-PACIFIC NEWS DIGEST

HK's economy in sharp upturn

Hong Kong's economy, which went through a sluggish period from 1994, rebounded sharply in the third quarter of last year, government statistics showed yesterday.

Expenditure-based gross domestic product grew by 5.1 per cent in real terms compared with the same period in 1995.

Last September the government cut its economic growth forecast from 5 per cent to 4.7 per cent. Growth in the first two quarters of the year was 3.3 per cent and 4.6 per cent respectively.

Merchandise exports, the main engine of Hong Kong's economic growth, have been growing at a slower rate than witnessed in the past decade, but trade in services has been growing sharply. Export of services increased by 7.1 per cent in real terms in the third quarter of last year, on a year-on-year basis.

Louise Lucas, Hong Kong

Australian banker charged

Mr Simon Hannes, the 36-year-old investment banking executive charged in connection with heavy trading in TNT call options shortly before an A\$2bn (US\$1.5bn) bid by Holland's KPN was announced last year, made a brief court appearance yesterday, with the prosecution adding an additional charge.

The TNT options were bought in the name of a Mr Mark Booth, who has not been identified, and generated a profit of around A\$2m. Shortly after the bid was announced, the Australian Securities Commission froze the proceeds and in January charged Mr Hannes, who worked for Sydney-based Macquarie Bank, under the Financial Transaction Reports Act. Lawyers for Mr Hannes told the court he intended to plead not guilty. Nikki Tai, Sydney

Defence minister Qin dies

China's former defence minister, Qin Jiwei, who helped orchestrate the military crackdown on pro-democracy demonstrators in 1989, has died aged 82. A close associate of paramount leader Deng Xiaoping, Qin died early on Sunday, the People's Daily said yesterday. Reuters, Beijing

Canberra meeting on republic

Australia's conservative federal government is expected to put its plans for dealing with the "republic issue" - whether Australia should cut its constitutional ties to the British monarchy - to a meeting of government MPs in Canberra today. Support for replacing the British monarch by an Australian head of state has been growing, and most opinion polls show a majority of Australians now favour this. Nikki Tai, Sydney

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

| UNITED STATES | | | | | JAPAN | | | | | GERMANY | | | | |
|---------------|---------|---------|-----------------|-------------------------|---------------|---------|---------|-----------------|-------------------------|----------------|---------|---------|-----------------|-------------------------|
| Year | Exports | Imports | Current account | Effective exchange rate | Year | Exports | Imports | Current account | Effective exchange rate | Year | Exports | Imports | Current account | Effective exchange rate |
| 1995 | 279.8 | -174.2 | -105.0 | 100.0 | 1995 | 228.2 | 73.5 | 154.7 | 100.0 | 1995 | 242.7 | 33.3 | 209.4 | 100.0 |
| 1996 | 291.0 | -140.6 | -150.4 | 87.4 | 1996 | 208.9 | 94.2 | 114.7 | 127.7 | 1996 | 248.5 | 63.5 | 185.0 | 108.5 |
| 1997 | 292.2 | -131.8 | -160.4 | 81.1 | 1997 | 194.7 | 82.1 | 112.6 | 138.9 | 1997 | 254.4 | 56.8 | 197.6 | 114.9 |
| 1998 | 272.5 | -100.2 | -172.7 | 71.0 | 1998 | 218.7 | 79.8 | 138.9 | 153.7 | 1998 | 272.8 | 67.4 | 205.4 | 111.1 |
| 1999 | 330.2 | -99.3 | -43.9 | 70.0 | 1999 | 245.5 | 70.6 | 174.9 | 147.0 | 1999 | 310.1 | 61.7 | 248.4 | 113.3 |
| 2000 | 309.0 | -79.3 | -229.7 | 66.7 | 2000 | 220.0 | 50.0 | 170.0 | 132.5 | 2000 | 324.8 | 55.1 | 269.7 | 118.1 |
| 2001 | 340.9 | -63.5 | -40.4 | 65.7 | 2001 | 249.4 | 77.7 | 171.7 | 143.7 | 2001 | 327.6 | 51.1 | 276.5 | 117.1 |
| 2002 | 345.9 | -65.2 | -47.1 | 64.4 | 2002 | 266.6 | 86.7 | 179.9 | 150.7 | 2002 | 330.9 | 56.8 | 274.1 | 120.6 |
| 2003 | 397.3 | -87.7 | -45.1 | 66.3 | 2003 | 300.4 | 118.6 | 181.8 | 131.0 | 2003 | 325.3 | 39.5 | 285.8 | 125.3 |
| 2004 | 432.3 | -127.0 | -305.3 | 65.1 | 2004 | 325.1 | 121.9 | 203.2 | 129.9 | 2004 | 360.3 | 37.6 | 322.7 | 125.8 |
| 2005 | 452.3 | -122.8 | -329.5 | 61.2 | 2005 | 331.3 | 101.4 | 229.9 | 124.8 | 2005 | 404.4 | 45.9 | 358.5 | 128.1 |
| 4th qtr. 1995 | 117.7 | -26.9 | -91.8 | 62.3 | 4th qtr. 1995 | 80.3 | 22.0 | 58.3 | 107.8 | 4th qtr. 1995 | 102.6 | 12.8 | 89.8 | 132.3 |
| 1st qtr. 1996 | 121.2 | -26.6 | -94.6 | 63.7 | 1st qtr. 1996 | 78.6 | 16.9 | 61.7 | 122.2 | 1st qtr. 1996 | 103.0 | 11.4 | 91.6 | 130.6 |
| 2nd qtr. 1996 | 126.2 | -32.7 | -93.5 | 64.6 | 2nd qtr. 1996 | 81.7 | 12.2 | 69.5 | 130.6 | 2nd qtr. 1996 | 101.6 | 11.2 | 90.4 | 128.2 |
| 3rd qtr. 1996 | 122.3 | -36.3 | -86.0 | 64.4 | 3rd qtr. 1996 | 78.5 | 15.9 | 62.6 | 137.9 | 3rd qtr. 1996 | 104.8 | 10.7 | 94.1 | 128.2 |
| December 1995 | 39.9 | -9.1 | 30.8 | 62.7 | December 1995 | 27.2 | 7.5 | 19.7 | 107.8 | December 1995 | 34.5 | 3.8 | 30.7 | 131.6 |
| January 1996 | 39.1 | -11.5 | 50.6 | 63.6 | January 1996 | 25.5 | 5.6 | 19.9 | 107.8 | January 1996 | 34.2 | 4.9 | 29.3 | 131.0 |
| February | 41.2 | -8.3 | 49.5 | 63.8 | February | 27.1 | 4.3 | 22.8 | 107.8 | February | 34.4 | 4.6 | 29.8 | 130.8 |
| March | 41.9 | -8.8 | 50.7 | 63.8 | March | 27.0 | 4.5 | 22.5 | 107.8 | March | 34.4 | 4.6 | 29.8 | 130.8 |
| April | 41.6 | -10.5 | 52.1 | 64.3 | April | 26.5 | 4.7 | 21.8 | 107.8 | April | 34.4 | 3.9 | 30.5 | 130.1 |
| May | 42.8 | -11.7 | 54.5 | 64.6 | May | 26.7 | 5.8 | 20.9 | 107.8 | May | 33.8 | 4.2 | 29.6 | 129.0 |
| June | 41.9 | -10.4 | 52.3 | 64.8 | June | 26.5 | 6.6 | 19.9 | 107.8 | June | 33.6 | 2.8 | 30.8 | 127.7 |
| July | 40.0 | -12.4 | 52.4 | 64.8 | July | 26.7 | 4.5 | 22.2 | 107.8 | July | 34.5 | 5.4 | 29.1 | 128.5 |
| August | 41.3 | -11.3 | 52.6 | 64.8 | August | 26.5 | 6.3 | 20.2 | 107.8 | August | 34.5 | 4.8 | 29.7 | 128.3 |
| September | 41.0 | -12.6 | 53.6 | 64.7 | September | 25.3 | 5.1 | 20.2 | 107.8 | September | 34.5 | 4.4 | 30.1 | 128.2 |
| October | 43.0 | -10.1 | 53.1 | 65.0 | October | 27.2 | 5.3 | 21.9 | 107.8 | October | 35.7 | 4.9 | 30.8 | 127.3 |
| November | 42.5 | -10.4 | 52.9 | 64.4 | November | 27.5 | 7.6 | 19.9 | 107.8 | November | 35.8 | 4.9 | 30.9 | 127.3 |
| FRANCE | | | | | ITALY | | | | | UNITED KINGDOM | | | | |
| Year | Exports | Imports | Current account | Effective exchange rate | Year | Exports | Imports | Current account | Effective exchange rate | Year | Exports | Imports | Current account | Effective exchange rate |
| 1995 | 133.4 | -3.7 | -137.1 | 100.0 | 1995 | 103.7 | -16.0 | -87.7 | 100.0 | 1995 | 132.4 | -5.7 | | |

US incomes jump at end of 1996

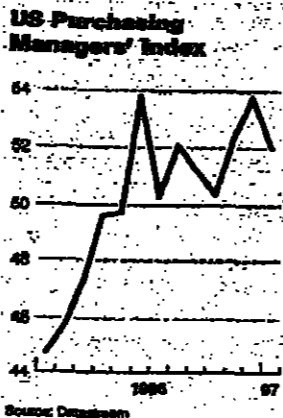
By Gerard Baker
in Washington

Americans' personal income rose sharply at the end of last year, as employment and wages continued to grow in a generally warm economic climate, according to a range of reports published yesterday.

Personal income rose by 0.8 per cent in December, compared with a month earlier, the fastest rate of increase for six months, the Commerce Department reported. But anecdotal indications of a disappointing pre-Christmas shopping season were borne out by evidence that personal spending rose by a more sluggish 0.5 per cent in the month.

In 1996 as a whole, earnings rose by 5.5 per cent, down from 1995's 6.3 per cent rate. Spending rose by 4.6 per cent against 4.8 per cent a year earlier. Inflation-adjusted personal disposable income grew by 2.9 per cent (after tax) in 1996, down from 3.5 per cent in 1995.

Other figures published yesterday suggested growth slowed slightly at the turn of the year, but the economy



maintained its generally upward momentum. Construction spending fell in December by 0.7 per cent from a month earlier, the Commerce Department said. But the decline followed several months of strong growth, and was largely the result of poor weather in many western states. For the whole of 1996, construction outlays increased by 4 per cent, against a 3 per cent increase in 1995.

The pace of manufacturing activity decelerated slightly in January, but output remained on

a firmly upward course, according to a survey by the National Association of Purchasing Managers. The NAPM's index of manufacturing activity dipped to 52 in January from 53.8 in December, but was still comfortably above the 50 level which marks the index's break-even point between boom and bust.

The report also provided further evidence that price pressures are edging up. The index of prices paid by purchasing managers rose for the second consecutive month, for the first time in a year and a half.

Overall, the reports suggest the rapid pace of growth of the economy in the last three months of last year is slowing, but remains strong. Last week, figures showed the whole economy grew at a 4.7 per cent annual rate in the final quarter of 1996.

A slower forecast pace of growth for the first half of this year is expected to persuade the Federal Reserve to leave short-term interest rates unchanged when its open market committee meets today and tomorrow to review monetary policy.

Private pension funds out to lure Mexicans

Popular capitalism has arrived in Mexico. So, at least, hope the 12 financial groups which have begun an advertising blitz to attract the social security contributions of 10m Mexican workers.

As of yesterday Mexicans can for the first time sign up with private pension fund administrators, bypassing the IMSS, the huge and notoriously inefficient state operator.

The government authorised the first batch of private fund administrators, or *Afores*, last week. Consortia members include Citibank, ING of the Netherlands, AIG of the US, Provida of Chile and most of Mexico's leading banks. The *Afores* will begin managing pension contributions in July, by the end of the century, Salomon Brothers estimates, the sector should control \$24bn of investments.

The government says the reform will strengthen and deepen Mexico's financial markets, increase the national savings rate and diminish reliance on foreign capital. But some fear that the benefits of the reform may be reduced by transitional costs in coming years.

Under the terms of the reform, about 11 per cent of workers' salaries will be entrusted to the *Afores*. At present, state pension contributions go to the IMSS, which uses part of the funds to subsidise the health services it also provides. By 2001, all private sector workers must have chosen an *Afore* to look after their pension contributions.

"This is a major step forward. Now contributors can be sure that they will get their pensions," says Mr Fernando Solís, the head of the Consar, the government body supervising the fund administrators. "The reform will allow many workers to participate in financial markets for the first time, as well as providing the long-term funding the country has not had before."

Mexico has traditionally lacked strong internal financing - as attested by a cen-

tury and a half of debt crises. The fall in the country's saving rate to just 16 per cent of gross domestic product in 1994, the year of the country's traumatic peso devaluation, made it all the more reliant on short-term foreign capital. The creation of a large pool of Mexican money, to be invested long-term, is designed to rectify this.

Under the new scheme workers will receive at least the equivalent of the minimum state pension when they retire, even though there will be no minimum return guaranteed on the funds invested. Such guarantees unduly constrained

many administrators as doctors on its payroll. Last week, the government announced it would increase its payments to the IMSS eightfold this year, to 21bn pesos (\$2.7bn), to pay the pensions of current retirees and to make up for the subsidy on medical costs. The amount is expected to double in 1998, the first full year of the new system, and will become twice as much again in real terms in 20 years' time.

The institution also runs one of the biggest chains of retail stores in Mexico, as well as funeral agencies and a baseball ground. One official has complained that at an IMSS-run spa outside Mexico City, the staff: visitor ratio compares with the opulent Four Seasons hotel.

The IMSS will also be able to run its own *Afore*, a concession won by opponents of the reform. Although the IMSS *Afore* has not yet been authorised, approval is expected in the next few weeks. In addition, the IMSS will be responsible for a large part of the administration of the system as a whole.

"It is like getting the fox to guard the hens," says Mr Sebastian Edwards, former chief Latin American economist at the World Bank. "The IMSS won't give up its pension contributions easily."

The other *Afores* have begun their campaigns aggressively. Advertisements from the rival administrators have jostled one another on the airwaves and in the nation's newspapers.

"We are out there fighting to build relationships with Mexico's workers that will last 30, 40, 50 years," says Mr Renato Gazmuri, a veteran of Chile's pioneering social reform and an adviser to the *Afore* run by Banamex, Mexico's biggest bank.

The whole campaign will have at least one short-term effect. Mexico's battered media industry expects more than \$70m in advertising revenues this year from the battle for the nation's pensions.

AMERICAN NEWS DIGEST

No deal with Peru rebels

Peru's President Alberto Fujimori, fresh from an emergency weekend summit with Mr Ryutaro Hashimoto, the Japanese prime minister, met US President Bill Clinton yesterday to discuss the handling of the hostage crisis in Lima.

Neither side gave details of the discussion, but before the meeting Mr Fujimori dismissed suggestions of any peace accord with Marxist guerrillas who have held hostages at the Japanese ambassador's residence in Lima since December 17.

"Peru has paid too high a cost to impose law and order... to throw it all overboard and give in to the extortion of a gaggle of human rights violators," Mr Fujimori told the Organisation of American States.

Referring to the Tupac Amaru Revolutionary Movement rebels, who are holding 72 hostages in Peru and demanding the release of jailed comrades, Mr Fujimori added: "There are no guerrillas or popular armies in Peru. There is only a people tired of living in poverty and violence, a people who want to work and get ahead in life."

Reuters, Washington

Cuban dissident detained

Cuban authorities have detained a dissident, Mr Hector Palacios Ruiz, for criticising the government's human rights record to foreigners. Amnesty International said in a statement received in Miami yesterday.

Mr Palacios, head of the Illegal Democratic Solidarity party, was arrested on January 9 and taken to the Technical Investigations Department in Havana, the London-based human rights group said. "He is reportedly being held in a cell with no light or ventilation," Amnesty International added.

No official reason was given for Mr Palacios' arrest. But Amnesty quoted unofficial sources as saying he had been charged with "disrespect" for allegedly making statements to correspondents and writing to governments about declarations made by President Fidel Castro at the Ibero-American Summit in Chile last November.

Reuters, Miami

Editorial comment, Page 17

Guatemala telecom sell-off

The Guatemalan government plans to sell 98 per cent of the state-owned telecommunications operator Guatel in mid-July, reversing its earlier cautious approach to the sale. A big investment bank will be selected this month to draw up the technical details.

The government had included an estimated \$200m from the prospective sale of 80 per cent of Guatel in the 1997 national budget. Local analysts say the decision to push for a more radical option is prompted by the government's urgent need for cash to alleviate its debt burden.

Guatel holds a monopoly in basic telecoms services, and privatisation is unlikely to face any serious public opposition. The industry's unions have also accepted its inevitability, encouraged by the offer of the remaining 5 per cent of Guatel shares.

National line density barely tops 4 per cent; 80 per cent of lines are in the capital and there are over 400,000 potential clients on a waiting list for installations.

However, the legal reforms the government must push through for the sale to go ahead could face opposition in congress.

Johanna Tuckman, Guatemala City

Tokyo calls Queen Mary

By Christopher Parkes
in Los Angeles

The Queen Mary, the former Cunard flagship and for the past 30 years the dry-docked centrepiece of Long Beach's hopes of building a tourist industry, may soon sail again.

A "Grand Tour" plan to surround the city-owned old lady with ponies and tow her from California for a five-year sojourn entertaining Japanese tourists in Tokyo Bay is to be considered by the city council early next week.

The lure is an offer of a \$40m refit at no cost to taxpayers, \$5m-a-year rent while she is away, and a homecoming in time for the opening of a multi-million-

dollar bayside entertainment and retailing complex.

Mr Joseph Prevratil, president of Queen's Seaport Development (QSDI), the ship's operator, claims to have Japanese partners willing to fund the renovation, which will include installing a casino in the grand saloon and refurbishing the hotel which occupies part of its lower deck space.

Mr Prevratil also wants an option to extend QSDI's current 20-year lease by 46 years, expanded branding and licensing rights to the name, and an operating contract for a special events park to be built close to the old Queen's present berth.

As an alternative, he has offered to buy the vessel outright for \$22m.

QSDI's public offer to a cash-starved city, recently hit by a succession of aerospace industry and military base closures, may prove difficult if not impossible to refuse.

The ship's plumbing, wiring and air conditioning systems - all between 30 and 60 years old - are in need of urgent repair.

"We can nickel and dime it to death for the rest of our lives," said one company official. "But the Grand Tour is one way of doing the job properly in one coup."

However, some local residents are agitated at the prospect of the loss of the city's only internationally known tourist attraction and fear that the liner might never return.

THE WORLD'S AIR LINE IS TAKING OFF.

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NEWS: DAVOS SUMMIT

Drive to free up financial services

Leaders of the US and European financial services industry have thrown their weight behind a drive to achieve an agreement between the members of the World Trade Organisation to liberalise global financial services by the end of 1997.

Mr Andrew Buxton, chairman of Britain's Barclays Bank, and Mr Ken Whipple, president of Ford Financial Services of the US, yesterday released a statement of shared objectives. These include:

- The right to establish and operate competitively.
- Foreign investors should have the same access to domestic markets as domestic investors.
- Barriers to the posting of personnel should be reduced.
- Restrictions on cross-border services should be removed.

Mr Buxton and Mr Whipple, who head two of the world's biggest financial services groups said there had been hardly any input from the private sector when the issue was last discussed in 1995. The negotiations stalled then because the US felt developing countries were not prepared to make enough concessions.

A group of industry leaders began discussing the issue last year. They are supported by the US Coalition of Services Industries, British Invisibles, the European Banking Federation and the European Insurance Committee.

The next round of financial services negotiations at the WTO resumes in April and while it is up to the governments to negotiate the agreement, the private sector is intent on making its voice heard this time.

Yesterday's statement said liberalisation of financial services was vital to boost global growth. It called for a WTO financial services deal by the end of 1997.

William Hall

Companies are getting wired but can they turn the marketing potential into profits? Internet: holy grail or fool's gold?

When Procter & Gamble, the US consumer products company which many believe invented modern marketing, admits it is looking to Greenpeace for tips on selling nappies to young mothers, you know something is afoot.

WORLD ECONOMIC FORUM

The admission was made by Mr Harald Einsman, head of P&G in Europe, at a session of the World Economic Forum in Davos on the commercial opportunities offered by the growth on the Internet of "virtual communities", real-time networks linking groups of people with shared interests.

Mr Einsman said that by enabling companies to communicate directly with consumers, virtual communities promised to cut distribution costs, provide much more detailed information about individuals' needs and purchasing patterns and allow manufacturers to strengthen brand loyalty.

However, to reap these rewards, companies would



NO DOUBTS: Microsoft chairman Bill Gates in Davos. He has done much to make the Internet THE 1990s buzzword

need radically to change their traditional approach to marketing. Instead of pumping out information and advertising to mass consumer markets, they would need to rely on consumers to volunteer personal information about themselves.

Although P&G was experimenting with web sites, where consumers could seek advice about matters such as how to wash

stubborn stains out of clothes, it still had much to learn. "We are far from being experts," Mr Einsman said.

The essential trick was to make the information and services provided on web sites so compelling that consumers would flock to them, enabling companies to establish direct Internet contact. On this point, Mr

Einsman was full of admiration for Greenpeace's successful web site.

Mr Howard Rheingold, a US author who has set up a business creating virtual internet communities, is sceptical of Procter and Gamble's approach. He suggested P&G was still a hostage to old-style marketing philosophies. Most people, he said, thought of themselves primarily as consumers and would resist overtures from companies which treated them as easy targets for a hard sell.

The Internet was simply another way to establish personal relationships, not an electronic substitute for them, he said. "People in virtual communities are not there to buy goods and services, but to communicate with other human beings. Any business which thinks a community is just a market place will quickly be dead."

As Mr John Hagel of McKinsey, the management consultancy, stressed, consumers would only be willing to part with details about themselves if they really trusted companies. One way for companies to achieve trust was to guarantee that they would never re-sell the personal

'It's a splendid hysteria...Most of us are probably using the Internet to communicate with mother-in-law in Nebraska. But if it's really urgent, we will use a phone or send a fax'

information they gathered.

That, the speakers agreed, could give a big advantage to long-established consumer companies such as P&G, whose brand strength was based on consumer trust. But even then, it was far from sure that the apparently boundless marketing potential of virtual communities would translate into profit. "Nobody knows if anyone will ever make a profit from it," Mr Rheingold said.

Such honesty was a welcome sign of fresh air in

a conference dominated by visionary exhortations of how the Internet would change the world, propounded by assorted gurus, techno-nerds and sharp-suited consultants on the prowl for a fast buck.

But for sheer iconoclasm, nothing could match the broadside on the glorification of the Internet launched, by Mr John Strickland, chairman of Hong Kong and Shanghai Banking Corporation, Hong Kong.

"It's a splendid hysteria that's driving us all to believe we must be part of it all. Because we don't really know why we are doing it, we have to pay a king's ransom to consultants to tell us how to do it," he said.

Companies everywhere were making huge investments to install Internet-based information systems, but were getting few commercial advantages in return. "But where do we end up? Most of us are probably using the Internet to communicate with mother-in-law in Nebraska. But if our business is really urgent, we use a phone or send a fax."

Guy de Jonquieres

Professor Machine, we welcome you to Davos

Intelligent machines are evolving more rapidly than humans, but can they overtake us?

How long will it be before the first machine is invited to attend the Davos forum in a personal capacity? Judging by the comments of some of the scientists attending this week's meeting, recent advances in artificial intelligence mean that it may not be too long.

Mr Howard Gardner, professor of education at Harvard University, said "machines are evolving much more rapidly than humans".

However, the panel of distinguished scientists grappling with the question "What is intelligence?", were not prepared to pre-

dict that advances in artificial intelligence could eventually match human intelligence. The idea of a computer ever being able to write a Shakespearean tragedy such as Hamlet, was still the stuff of science fiction.

While machines can be programmed to match certain types of human intelligence, Sir Roger Penrose, professor of mathematics at the University of Oxford, said there were strong arguments that certain types of thinking cannot be replicated by machines.

"We must dig much more deeply into what the universe is all

about," to understand the subject, said Sir Roger.

By contrast, Mr John Holland, professor of psychology, computer services and engineering at the University of Michigan, would not rule out the eventual possibility that a machine would be produced with the capacity to be self-aware.

He noted that 50 years ago, a machine had been built to play checkers. It started knowing nothing about the game, but learned the rules and by the end of its life was winning tournaments.

One of the problems in any discussion of intelligence is the imprec-

ision of the term. Some scientists defined the ultimate goal of artificial intelligence as producing a "machine that can be proud of us". Others just defined it as "anything that machines could not do five years ago".

IQ is widely accepted as the definitive measure of intelligence yet different people appear to display different kinds of intelligence.

Arthur D. Little, the US consultancy firm, recently conducted a study of two groups. One was composed of seven people with above-average IQs. The second group all had below-average IQs.

The two teams were set identical problems which they had to solve as a group. The below-average group came out ahead, but the above-average group subsequently caught up.

Meanwhile, studies of ants show that while the average ant's lack of intelligence means its life expectancy is only a couple of days, a colony of ants can last for dozens of years. This raises the question of whether an organisation can be collectively more intelligent than its individual members.

William Hall

Tony Jackson

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Envelopes containing the binding offers shall be unsealed by the above mentioned Notary Public in her office, on Monday March 3rd, 1997, 14.00 hours.

The Auction shall take place in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/91 and subsequently amended), the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the Offering Memorandum.

Interested parties may obtain a copy of the Offering Memorandum from the Liquidator "ETHNIKI KEPHALEOU SA, ADMINISTRATION OF ASSETS AND LIABILITIES" 9a Chrysosplottissis St. Athens 10561 Greece, Tel. +30-1-323.14.84-87, fax: +30-1-321.79.05 or the Liquidator's agent Mr. Efstathios Michaelides, 20, Amalias Avenue, Athens 10557, Greece, Tel.: +30-1-32.26.334, fax: +30-1-3 221103.

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LEGAL NOTICES

HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF PLATFORM HOME LOANS LIMITED

and

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY given that an Order of the High Court of Justice, Chancery Division, dated the 22nd January 1997 confirming the reduction of capital of the above named Company was registered by the Registrar of Companies on the 29th day of January 1997

DATED the 4th day of February 1997

CLIFFORD CHANCE

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Solicitors to the Company

JPX 061/250

NEWS: UK

Judge criticises Binder Hamlyn and Flemings for 'less than strenuous guidance'

Ex-MTM chief jailed for fraud

By John Mason,
Law Courts Correspondent

Mr Richard Lines, the former chairman of MTM, the chemical manufacturer which collapsed in 1992 owing £250m (\$405m), was yesterday jailed for two years following his conviction for fraudulently ramping up the company's profits and deceiving the markets about its financial health.

MTM's former finance director, Mr Thomas Baxter, was sentenced by a London judge to six months imprisonment for his part in the fraud.

But Judge Geoffrey Grigson also criticised MTM's accountants, BDO Binder Hamlyn, and its merchant bank, Robert Fleming, over their roles in advising the company. He told Mr Lines he had been ultimately responsible for his actions, but went on: "You were less

than strenuously guided by your City advisers."

In December, Mr Lines was convicted on two charges of conspiring to account falsely and one of making false or misleading statements. Mr Baxter was convicted on one charge of conspiracy to account falsely and one of making false or misleading statements. He was acquitted on a further conspiracy charge over the purchase of Oryx, a US chemical company.

The fraud began after MTM's rapid, acquisition-led expansion in the late 1980s. MTM's share price had risen steadily in this period, but the company was left with heavy borrowings as the industry went into recession.

To meet profit forecasts, a series of bogus transactions were put through MTM's books in 1990 and 1991. When the company made its first profits warnings in

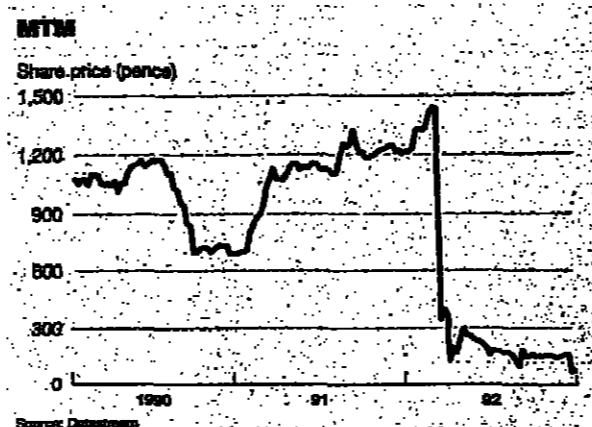
March 1992, assurances were given about the company's underlying finances.

However, the company was to collapse dramatically within weeks, its share price falling in London from 286 pence to just 10 pence.

A lawyer for Mr Lines said it was in an effort to meet the expectations of City of London analysts that his client had crossed the line between acceptable and unacceptable business practices. But both BDO Binder Hamlyn and Robert Fleming could be criticised for their "lack of activity", Mr Langdale said.

"It may be that BDO had become far too cosy with MTM," he said.

Robert Fleming had not attempted to prevent Mr Lines making the statements which misled the markets, he said. One banker had suggested MTM "accentuate the positive", he said.



Sentencing the men, the judge said: "Those who undertake the management of public companies must understand that the requirement of honest dealing with auditors and the public is absolute. Where dishonesty is proven, imprisonment must follow."

However, he accepted the

fraud had not been committed for personal gain, telling Mr Lines: "I accept it was ambition for the company, and through the company for yourself, that motivated you and not greed."

Mr Lines was disqualified from acting as a company director for five years and Mr Baxter for two years.

Switch to repos will be outlined today

By Richard Adams and
Graham Bowley

The Bank of England will today announce its final plans to revolutionise the way it operates in the money markets and supplies liquidity to clearing banks.

The reforms will be introduced by the bank, the UK central bank, as soon as the first week in March - earlier than expected - to avoid any additional pressure on the markets in the run-up to the UK general election.

In the biggest changes to its money markets operations for 100 years, the bank is to introduce daily gilt sales and repurchase agreements - known as gilt repos - to manage daily short-term interest rates. It will also remove the exclusive status of discount houses, through which it currently controls the supply of money to the markets.

The bank first published its proposals in December. But after discussions with discount houses and other parties, it agreed to introduce a transition period of up to two years to cushion discount houses from the effect of losing their special role and to allow the change to proceed smoothly.

The switch to gilt repos will allow the Bank to trade debt through a wider range of parties that regularly deal in UK government stock, including banks, building societies and securities houses, as well as the seven discount houses.

Gilt repos will be used alongside the Treasury bills and local authority and bank bills which the bank buys and sells at present.

The bank said yesterday that the initial proposals had been refined after wide-ranging talks with the market participants. The bank's move brings the UK into line with other European countries such as Germany, where a similar move to a single currency would almost certainly be based on repo operations.

UK ECONOMICS DIGEST

UBS joins Emu investment row

One of Europe's biggest banks entered the single currency debate yesterday, saying that companies' decisions to invest in the UK would not be influenced by monetary union. A study by Union Bank of Switzerland said inward investors would concentrate instead on factors such as flexible labour markets and training which raised the UK's competitiveness. On that, the UK had an enviable record compared with other countries such as France and Germany, UBS said.

"The level of the currency or participation in Emu is extremely unlikely to be the main consideration of any company investing in Europe," said Mr Paul Donovan, UBS economist and author of the study with Mr George Magnus, UBS chief international economist. The report follows suggestions last week by Toyota, the Japanese motor company, that its investment strategy might change if the UK stayed out of Emu. The UBS report said that debates over exchange rates added little to the debate about how to make countries more competitive. "Flexible, well-educated labour markets and the application of new technology, that is what is making countries competitive," Mr Donovan said. He added that attempts by some countries to ensure that the euro, the proposed currency, would be weak in order to boost their economies were missing the point. "That is not going to help the crisis in many continental European countries. Germany and France are going to remain competitively backward so long as they have labour markets which are not attractive to global markets," he said.

MANUFACTURING

Factory activity accelerates

Factories reported an unexpected turnaround in manufacturing activity last month, the latest survey by the Chartered Institute of Purchasing and Supply showed yesterday. Activity accelerated for the first time since October as factories took on more staff than at any time since March 1995. The institute's survey provided the first evidence that manufacturers are weathering the pound's recent strength. Factory order books improved thanks mainly to rising domestic consumer demand, although export orders were also higher.

The findings will bring relief to some companies whose exports had been dented by the pound's sharp rise since the middle of last year. After slipping slightly last week, the pound rose strongly again yesterday, gaining more than two pennings against the D-Mark to close at DM2.648. The pound's sharp rise has helped keep import prices down, the survey showed.

SMALLER BUSINESSES

Optimism over sales and jobs

Owners of small to medium sized businesses in the UK are much more optimistic than their counterparts on mainland Europe about increasing staff numbers and sales in 1997, a survey from Grant Thornton, an accountancy firm, and Business Strategies, an economics consultancy, said yesterday. The study says businesses in all regions of the UK except Scotland intend to employ more people this year than last. The greatest expectations about sales and profits growth are in southern and north-west England and in Wales.

Minister seeks anti-EU allies in Sweden

By Hugh Carnegie in Stockholm

Mr Malcolm Rifkind, the British foreign secretary, yesterday invoked the spectre of a pan-European police force as he launched a round-Europe campaign to win backing for Britain's efforts to halt deeper integration in the European Union.

Opening in Sweden, where public opinion is more anti-EU than in the UK, Mr Rifkind claimed that "tens of millions of people throughout Europe" supported "Britain's balanced approach" to building an EU based on "intergovernmental action, not integration". "It may be,"

he said, "that in some countries people are ready to have a European police force patrolling their streets; to be subject to arrest and detention by European justice authorities; to have asylum rules and immigration quotas set - and decisions taken on who should become citizens of their country - at the European level. But in Britain they are not, and I suspect that is true of most other countries."

Mr Rifkind, speaking at the Stockholm Foreign Policy Institute, said he would soon visit Germany, France, the Netherlands and other EU states to proclaim "Britain's

modern vision of Europe". In a reference to France and Germany, Mr Rifkind cast doubts on denials by some EU countries that they were not working towards a "United States of Europe".

He said "there is an ambiguity, an uncertainty, about the limits of the integration that other governments are seeking... Many people in my country fear that the inevitable result will be a federal superstate in which nation states have no more control over the lives of their citizens than parish councils do now."

Mr Rifkind said Britain backed more co-operation in Europe, but

with strict limits on supranational powers. It wanted an EU that was enlarged to embrace eastern European nations and was "more diverse culturally, politically and economically".

His hosts appeared anxious not to be too closely identified with his views. Mrs Lena Hjelm-Wallen, the Swedish foreign minister, said Stockholm believed the EU should be based on intergovernmental, not supranational, institutions. But she added: "We have entered the EU to be constructive, not to put a stick in the wheel of the EU... In some cases the UK has done that."

English World Cup bid fuels soccer row

By Jimmy Burns in London
and Peter Norman in Bonn

English soccer chiefs last night prepared for an extended and potentially bruising campaign with their German counterparts after winning renewed UK government backing for their controversial bid for the 2006 World Cup.

Mr David Davies, from the English Football Association, pledged to push ahead with a £10m (£16.2m) campaign to promote the UK case internationally in spite of the declared preference of European football chiefs for the German bid.

"We will be taking this campaign around the world because we believe our bid

will be the best bid," Mr Davies said.

The move threatens to fuel a simmering transatlantic row inside Uefa and Fifa, which govern the European and world game respectively, which was sparked by Uefa's support for the German bid.

The FA claimed that a fax from Uefa last week was the

first it had heard of the decision to back the German bid.

In a statement, the FA accused Uefa of being "undemocratic".

This version of events was contradicted by German football officials, and Uefa's Swedish president, Mr Lennart Johansson, who claimed that UK soccer chiefs had passively con-

sented to the German bid since it was first aired two years ago.

The German football federation (DFB) yesterday welcomed Uefa's support for Germany's bid to host the World Cup in 2006 as "an extremely important step" which would "give a new boost" to the country's plans.

CONTRACTS & TENDERS

APV RT.
HUNGARIAN PRIVATIZATION
AND STATE HOLDING COMPANY

ANNOUNCEMENT

The Hungarian Privatization and State Holding Company (APV Rt., 1133 Budapest, Pósföldi út 56) notifies those concerned that the open tender announced on September 6, 1996 for the sale of the share package of the 100% state owned Resk Ore Mines Co. (formerly Resk Ore Mines State Enterprise, recently transformed into a joint stock company) has been declared unsuccessful.

The Hungarian Privatization and State Holding Company hereby issues a preliminary announcement to the interested parties, that in the near future it intends to announce a new privatization tender for the sale of the Resk Ore Mines Co. Invitations for the new exclusive tender will be sent also to the organizations which have submitted an offer for the present tender.

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LEGAL NOTICES

No 108451 of 1996
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
IN THE MATTER OF FIRST CALL GROUP PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 25 January 1997 confirming the reduction of capital of the company of £21,999,994.54 to £1,351,351.55 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars referred to by the Registrar of Companies on 29 January 1997. Minute Condition of 22 Toller Street London EC4A 3DF. Solicitors for the above-mentioned Company

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15347B

LAW

Time limit
EC challenge



FUELS FOR THE FUTURE

A lot of real exciting things are happening," says Mark Agee, president of Oklahoma-based Syntroleum.

Big oil companies are beating a path to the tiny company's door because of its low cost, economical process for making synthetic crude oil.

The Tulsa company, founded in 1984 by Agee's brother Kenneth, now chairman and chief executive - still has just 16 employees. It claims to have developed a process for converting natural gas into "syn-crude" that is competitive with oil at \$15 to \$20 a barrel.

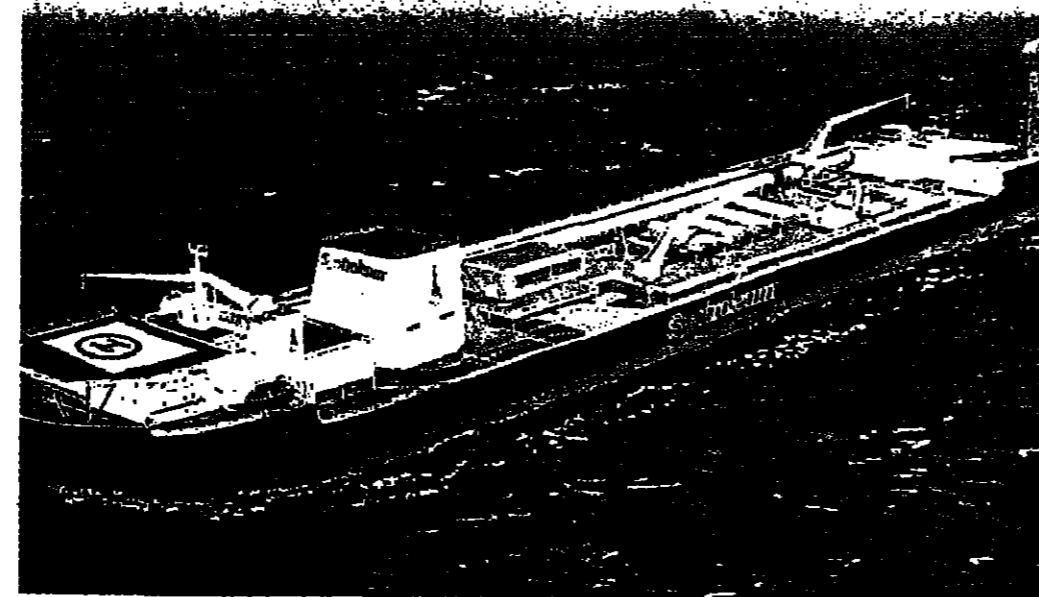
The significance of the development is not lost on the oil and gas industry. For years, the technology for creating syn-crude from natural gas has been hampered by its high cost and uneconomical image. But an economical, small-scale version could become a valuable option for oil and gas companies. Syntroleum recently signed agreements with Texaco to license and develop the technology, and is in discussions with nine other oil companies for licensing rights.

To succeed, the conversion process has to overcome its image problem and prove its profitability, says Agee. "People have always said that this technology is too expensive," he says. "But none of these people were actually focused on making it less expensive."

The Syntroleum process is based on traditional Fischer-Tropsch chemistry - named after two early 20th century German scientists - which uses a catalyst to convert carbon monoxide and hydrogen into hydrocarbons. The carbon monoxide and hydrogen (known as synthesis gas or syngas) for the reaction can be produced either from coal or natural gas. Germany used the process during the second world war to produce diesel fuel from coal and Sasol, of South Africa, has been involved since the 1950s.

In the Syntroleum process natural gas is mixed with air in a reactor called an autothermal reformer to produce carbon monoxide and hydrogen. In the next reactor a cobalt-based catalyst converts the syngas into hydrocarbons.

The key to the process is its simple design - the reactants go in at one end and products come out of the other. This allows the nitrogen contained in the air to pass through the system. Previous designs have been more complex, with a "recycle loop" that can lead to a build-up of nitrogen. So pure oxygen has had to be



The crude sea: an artist's impression of a syn-crude plant which can be mounted on ships, barges and platforms

William Macdonald on a low-cost process for manufacturing synthetic crude oil

Gas reaction

used instead of air, which has added to the cost.

Syntroleum has been operating a pilot plant at Tulsa producing two barrels of syn-crude per day since 1990 and expects to make an announcement on its first commercial plant, probably at 5,000bpd, within six months.

At present, the company offers an economical process at outputs as low as 2,000bpd. "Size is very important. If this is going to be a widely used tool, it has got to fit the size of the fields," says Mark Agee.

Syntroleum calculates that this small-scale approach would allow the process to fit more than 40 per cent of the world's gas fields, holding more than 95 per cent of the world's gas. The company is also looking at mounting the plants on ships, barges and offshore platforms.

A few relatively large natural gas-to-synthetic fuel plants have already been built. Shell, regarded as the market leader in this field, has been operating a 12,500bpd natural gas-to-synthetic fuel plant in Malaysia since 1993. The plant, which also produces some waxes, cost \$860m to build. Exxon, meanwhile, has been in talks with state-owned Qatar

General Petroleum for a \$1bn-plus plant to produce synthetic fuels from natural gas. This would produce 50,000bpd of liquid diesel fuel known as middle distillate. But neither Shell nor Exxon are considering producing synthetic fuels at the small output volumes that Agee thinks are critical to success of the process.

Synthetic crude oil can also be produced from the vast tar sands of western Canada, where development in extraction technology over the past 30 years have sharply improved the product's competitiveness against more conventional sources.

One big advantage for the natural gas conversion process is that there is plenty of it. According to a recent study by Enron, the US gas company, there could be as much as 14,000 trillion (million million) cubic feet of natural gas available worldwide. If this estimate is accurate, it means that the world's natural gas reserves could potentially be converted into 1,400bn barrels of syn-crude, more than doubling the world's current oil reserves.

Another important consideration, says Ian Fells, professor at

Newcastle University's chemical engineering department, is that the methane in natural gas is a very potent greenhouse gas, 30 times more potent than carbon dioxide. Having an alternative use of the gas could be extremely important where the field is too small to turn it into methanol or liquefied gas, or too remote to be piped. "The best thing you can do with gas is to use it as gas," he says. "There needs to be special circumstances before you would consider doing anything else."

For refiners, syn-crude would have advantages as it contains no sulphur or aromatics. This purity should enable the use of simplified refining techniques, says Syntroleum. Also, in contrast to alternatives to oil such as methanol, syn-crude can be used in the existing infrastructure for oil products without modifications.

The process would be "entirely sensible if the economics work out," says Fells. "At the moment there is a world glut of gas and oil, but that, of course, could turn into a famine at any time."

This is the first in a series on new or alternative fuels. A second article, on compressed natural gas, will appear shortly.

Update • Nanophase materials

Glowing example of microparticles

April 18, 1989

Particles with possibilities

NANOPHASE materials - elements and compounds made in the form of extremely fine particles - are likely to assume increasing importance in the next few years, according to Technical Insights (TI), the New Jersey technology market research organisation.

Nanophase particles are so called because their sizes range from one to 100 nanometres (a nanometre is one thousand millionth of a metre). Such extremely fine particles flow rather like water and can assume mechanical, electrical, magnetic and optical properties that are not present in normal forms. Work going on in a number of laboratories is covered in a report from TI called Nanophase Materials: New Materials, It describes the processes being used in laboratories to make the materials and indicates the key research groups, licensable patents, papers and joint research opportunities. Among the possibilities are ceramics that have a degree of ductility (at low temperatures) and materials which can have a non-linear effect on light (one colour as an input and two as an output, as a result of frequency doubling).

THEN: Nanophase materials - elements and compounds made in the form of extremely fine particles - were an idea whose time was coming in 1989.

Nanophase particles are so called because their sizes range from one to 100 nanometres (a nanometre is one thousand millionth of a metre). Such extremely fine particles flow rather like water and can assume mechanical, electrical, magnetic and optical properties that are not present in normal forms.

A US report said nanophase materials were likely to assume increasing importance in the next few years.

NOW: New materials in miniature have, as expected, proved effective as additives which help irreplaceable technology resist heat.

But there is some way to go before nanophase, for example, is used for the turbo pumps in space shuttle engines, as predicted by BusinessWeek in 1991. Instead, microparticles have proved a valuable new active ingredient in sunblocks.

The new materials have many properties that ought to find them a home in industry. They make ceramics stronger, more malleable and more resistant to heat, while some nanophase metals are five times as strong as the naturally-occurring elements.

Researchers have toiled to improve on the production process in which naturally occurring elements and compounds are essentially ground down to the requisite size.

"The actual improvement in physical strength is down to specific particle size," an industrial chemist explains.

"It is not easy to control what is essentially a smashing up of chemical structures. You will tend to get lots of particles that are smaller or larger than the ones you want."

The new methods have been used successfully in the cosmetics industry to exploit traditional materials with useful optical properties.

Fine particles of pigments

such as iron oxide are used in the production of make-up and lotions, enabling them to spread more evenly than before.

Zinc oxide and titanium dioxide have long been known as excellent absorbers of ultraviolet light of the frequencies which damage human skin. But they could not be used effectively in sunscreens as they whiten on application.

The grains of oxide molecules, which were typically 1,000nm or larger in diameter, scattered visible light, which has wavelengths ranging from around 350nm to 800nm.

The grains of 50nm or less now available have a negligible effect on visible light waves, so transparent sunblocks can be

manufactured using the oxides. Nanophase Technologies, the US company that has pioneered research in the area, is working on related products to stop paper and fabrics fading in the sun.

The new physical sunscreens are non-toxic and odourless. Traditional chemical sunscreens, such as benzophenones, use organic molecules which absorb light in the UV frequency range.

As these compounds are invariably aromatic, the final product tends to be smelly. Chemical sunscreens can also trigger skin allergies and they are costly to produce, as the active ingredient often has to be used in large quantities to be effective.

That is not to say physical sunscreens are cheap. Production of emulsions that are consistent in both the size and distribution of the microparticles is tricky. The production process can be monitored with powerful microscopes, which can be effective, but it is often more prudent to buy expensive preparations of premilled ingredients.

An unevenness in the product could skew measurements of the protection offered by a cream, putting manufacturers at the risk of unwittingly making false claims.

Nanophase materials have been used to date to help well-known techniques evolve rather than to revolutionise existing practices. That could all change if Nanophase Technologies fulfils its promise to be a \$100m company by the end of the decade.

Even now there is evidence that an elegant concept has made the often painful transition from laboratory to bottom line. "The products would have become very much more expensive as the consumer demands higher and higher levels of protection," says a cosmetic chemist.

"We would be working a lot on preventing potential allergies and skin reactions."

Michael Peel

LAW

Time limit on EC challenges



EUROPEAN COURT

Failure to challenge a European Commission decision by bringing an action for annulment before the European Court of Justice within the time limits prescribed by the Treaty of Rome precluded any subsequent challenge before a national court, the Court ruled last week.

The case arose out of proceedings between Wiljo, a company involved in bunkering of sea-going vessels, and the Belgian state. Wiljo brought an action against a decision of the Belgian authorities demanding a contribution to a scrapping fund set up under the European regulation to improve inland waterway transport.

The regulation was intended to achieve a substantial cut in overcapacity in such transport. Wiljo had earlier applied to the Commission for exemption from scrapping fund payments in respect of a bunkering vessel, the Smaragd.

The Commission rejected that application, and stated that it considered the vessel suitable for the transport of all kinds of liquid loads and therefore contributed to the capacity of the inland waterway fleet which was subject to the regulation.

Although it could have applied to the European Court for annulment of that decision, Wiljo did not do so within the time limits. Instead, it brought proceedings before a national court challenging the decision's implementation by the Belgian authorities.

The Antwerp Commercial Court referred the case to the Luxembourg Court. The Commission argued there was no need to rule on some or all of the questions referred, as they called into question the validity of its unchallenged earlier decision.

reasonable to assume the decision could be challenged in proceedings against national authorities before the national courts.

The Court observed that it was settled law that a decision adopted by a European Union institution, which had not been challenged by its addressee within the time limit, became definitive as against him.

That rule was based on the consideration that the period within which legal proceedings must be brought were intended to ensure legal certainty by preventing measures being called into question indefinitely.

The Court concluded that, by virtue of the principle of legal certainty, the national court was bound by the Commission's decision addressed to Wiljo, according to which the Smaragd was not a specialised vessel entitled to exemption from the fund.

The Court went on to consider whether the sole purpose of the questions referred to it was to enable the national court to resolve the question of the validity of the Commission's decision, or whether those questions also related to the interpretation of the provisions which defined the scope of the regulation.

Adopting the observations which Advocate General Francis Jacobs had made in his opinion, the Court concluded that all of the national court's questions had to be construed as relating to the validity of the Commission's decision.

The Court ruled that where a Commission decision had been addressed to the owner of a vessel, and the addressee had not brought an action under the Treaty within the time limits, that decision was binding on the national court.

C-178/95: Wiljo NV v Belgium, ECJ 5th, January 30 1997.

BRICK COURT CHAMBERS, BRUSSELS

Philips poaches from CSFB

Ivo Lurvik, head of Credit Suisse First Boston's Prague operations, is in March joining Philips, Europe's biggest consumer electronics group, as senior director and head of mergers and acquisitions.

Lurvik, a Dutch citizen, will be based at Philips' Eindhoven headquarters reporting to Dudley Eustace, chief financial officer. Lurvik, 35, replaces Rens Das, who has retired.

Under Cor Boonstra, who took over as president last October, Philips has been seeking to stem an erosion in profit margins by rapidly shedding non-performing units and seeking tie-ups with manufacturers in lower cost countries. Lurvik's job will include responsibility for divestments, alliances and joint ventures.

Lurvik was once tipped to head CSFB's Moscow office. He said the offer from Philips gave him the opportunity to return to a "very challenging" job in his native country. In his time at CSFB the investment bank lead-managed many bond issues for Czech companies and also forged a close relationship with Komerční Banka, the largest Czech commercial bank.

They are now jointly working on the privatisation of Nova Hut, a big steel company which is due to offer shares to the public later this year.

His successor at CSFB is Karl Heinz Kranich, who moves from JP Morgan's Prague office, which he has headed since 1990. JP Morgan was adviser to SPT Telecom and the Czech government in the sale of a 27 per cent stake in the telecoms group to a Dutch/Swiss consortium in 1996.

Kranich, 43, has been with JP Morgan for nearly 22 years, most of them spent in Frankfurt and Düsseldorf before moving to Prague in 1990.

Gordon Cramb in Amsterdam and Vincent Boland in Prague

Browne joins Intel

John Browne, group chief executive of British Petroleum, has joined the board of Intel, the US-based semiconductor group which dominates the market for personal computer microprocessors.

Browne, 48, is the first European and only the second non-American to be appointed to the 11-member Intel board and his appointment

comes as the US chip maker continues to expand its business overseas. He joined BP's board as managing director in 1991 and became group chief executive in July 1995. He is also a director of SmithKline Beecham.

Gordon Moore, Intel chairman, said Browne's "years of international experience, managing large and widely dispersed industrial organisations, will provide Intel with considerable expertise as we face the competitive challenges of the future." Paul Taylor, London

Swedish manoeuvres

A round of musical chairs at three of Sweden's biggest companies has taken Michael Treschow, chief executive at Atlas Copco, the engineering group, to the chief executive's seat at Electrolux, the household appliance supplier.

He replaces Leif Johansson, who is to take over at the helm of Volvo. Giulio Mazzalupi, the long-serving Italian head of Atlas's compressor division, is to succeed Treschow, thus becoming one of a highly select band of foreigners to lead a top Swedish corporation.

Treschow, 53, has been at Atlas since 1973, spending six years as

KKR: new Euro chief

One of Britain's veteran industrialists, Ian Martin, is quitting as European boss of the giant New York investment house Kohlberg Kravis Roberts (KKR). Glenista Martin, set up three years ago by

chief executive. Associated by the markets with sound management, his reputation was enhanced by the successful \$500m takeover by Atlas of Milwaukee Electric Tool corporation of the US in 1985.

Under his stewardship, a strong focus on efficiency helped lift Atlas's operating margin from 7 to 11 per cent. This point will not have escaped the attention of Electrolux's board: under Johansson, Electrolux failed consistently to meet profitability targets.

Treschow takes over at a time when Electrolux is in the process of restructuring its US operations and is attempting to stem a slide in sales in its main European market. Greg McIvor, Stockholm

Group, set up three years ago by Martin as KKR's European vehicle, will now be run by its present investment chief, Neil Richardson (left).

At 61, Martin - previously second in command at Grand Metropolitan - is by no means retiring. He is chairman of the food group Unigate, and is on the board of Granada. That, it turns out, is precisely the point.

"There are quite a few conflicts emerging," he says. "KKR looks at everything: we've looked at 150 opportunities in the past three years. Unigate is in acquisitive mode as well, and Granada has been selling things. There have been one or two awkward situations."

During Martin's time, KKR has bought close to \$1bn worth of European businesses, mostly regional newspapers. These include the recent \$205m purchase of Westminster Press from Pearson, owners of the FT. Martin will stay on the board of Newsquest, KKR's newspaper holding company.

Richardson, 38, started his career with the management consultants Bain & Co, then headed the UK mergers and acquisitions business of CS First Boston. He has been Glenista's investment head since April 1994. Tony Jackson, London

ON THE MOVE

Werner Wenning, head of corporate planning and controlling, joins the board of BAYER on February 1.

Tom Mockridge has been appointed chief executive of FORTTEL, Australia's largest cable consortium, succeeding Mark Booth, who becomes chief operating officer of JSkyB, a joint venture by News Corp and Japan's Softbank Corp.

Bob Ives, fixed-income mutual fund manager of FIDELITY INVESTMENTS, who oversaw four funds with assets totalling about \$1.5bn, has resigned.

Bruce Myers joins GTL, the US electronics group 57 percent owned by Telemetrix of the UK, as vice-president and chief financial officer. Myers was previously chief operating officer and chief financial officer of Xscribe Corp.

Daniel Shum has left Salomon Brothers for LEHMAN BROTHERS ASIA HOLDINGS, where he succeeds George Chalmers as senior vice-president in charge of private client services.

Foo Pek Hong becomes a managing director of the Singapore office of HSBC

HOLDINGS. Tan Geok Pong has been appointed managing director for business development.

William Irvine, chairman of NATIONAL AUSTRALIA BANK, is to retire from the board in September. He will be succeeded by Mark Rayner, a director of the bank since 1985.

Tsutomu Okuda, managing director, succeeds Shotaro Shimomura as president of DAIMARU, the Japanese stores group, on March 1.

Allen Ritchie has resigned as president - finance and administrative group - of AGCO, the US agricultural equipment company.

Eric Molob, chairman of Kagiso Trust Investment, joins the boards of three group companies of South Africa's LIBERTY LIFE GROUP.

Joseph Prochaska has been appointed chief financial officer of AON GROUP, the consulting arm of Aon Corporation.

Miguel Ethenique, chairman of Brasmotor of Brazil, joins JP MORGAN's international advisory council, chaired by former US secretary of state George Schultz.

Michael Kowalski, president of TIFFANY, the

US jeweller, take the additional role of chief operating officer. Jeanne Daniel and Thomas O'Neill, respectively senior vice-presidents

merchandising and international, become executive vice-presidents.

Jürgen Guba joins SALOMON BROTHERS from Commerzbank as vice-president, head of fixed income capital markets for Germany.

Thierry Rénault becomes president of DUCROS, the French herbs and seasonings group. He succeeds Pierre Bombana, who moves to other duties within the Medelco Group.

Sven Porellus has been appointed president of ASSIDOMAN KRAFT PRODUCTS, the Swedish forest products group, from March 1. He was previously with Mölnlycke. Mats Heiman, who has been acting president, will return to Carta Corporate Advisors.

Christian Speiser joins the board of SWISS RE on March 1. As chief financial officer, he will progressively take over responsibility from Bruno Laube and Christoph Dorschel, who retire at the end of 1997 and 1998 respectively.

Former Philippines energy

secretary Delfin Lazaro joins the board of GLOBE TELECOM, a joint venture between Ayala Corp and Singapore Telecom International.

Liu Chaoying has been appointed an executive director of CHINA AEROSPACE INTERNATIONAL HOLDINGS.

Yang Yi Sheng retired as executive director and vice-chairman of CHINA TRAVEL INTERNATIONAL INVESTMENT HONG KONG on January 21. Zheng Hongguang and Xu Shiquan have become executive directors.

Robert and Janice Davidson have relinquished their executive roles as CUC INTERNATIONAL, the US software group, but will remain on the board.

Christopher McLeod, previously vice-president of CUC International, becomes chief executive of CUC Software. Kenneth Williams, co-founder of CUC subsidiary Sierra On-Line, will take on an enlarged group role.

Paul Stecko rises to chief operating officer for TENNECO, the US industrial group. He was previously president and chief executive of the company's

packaging operations.

Philippe Rousseau becomes adviser to the chairman and secretary general of AOM, the French domestic airline. He had previously spent his career at GTM Entrepote, the French diversified industrial group.

Peter Abele and Werner Mischke join the management board of AUDI, part of the Volkswagen group. Mischke, previously head of car body development at BMW, takes over from Franz-Josef Paefgen's responsibility for technical development. Abele, currently in charge of Audi's business administration, takes over a new finance and organisation division.

David Airey has resigned as chief executive of BANK OF MELBOURNE, Australia's eighth largest bank, to join Australia and New Zealand Banking Group. Robert Giles, chief financial officer, becomes acting chief executive and Christopher Stewart, executive chairman.

Ann McLaughlin, former US labor secretary and chairman of the Aspen Institute, joins the board of DONNA KARAN INTERNATIONAL, the US designer.

Krish Prabhu and Jacques

Dunogue have been appointed vice-presidents of ALCATEL TELECOM and will sit on the executive committee.

Andrew Freris, formerly Salomon Brothers' chief economist in Asia, joins BANK OF AMERICA's global capital markets group as managing director, Asia research at BA Asia.

Sanjiv Misra, former India country head at Goldman Sachs, moves to SALOMON BROTHERS as managing director and head of Asia Pacific equity capital markets.

Brian Woods joins PLANET HOLLYWOOD INTERNATIONAL from Blockbuster Entertainment in a new role as president of the Planet Hollywood brand.

Ian Hamilton, formerly global director of tennis marketing at Nike, takes charge of the Official All Star Cafe brand.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'line'.

MERCOSUR

The Common Market of the South has already come a long way, but now co-ordinated policies are needed. Without them, further progress may prove more difficult.

Stephen Fidler reports

Trade pact sets the pace for integration

Latin American integration, an elusive ambition since the region shrugged off the colonial yoke in the last century, has advanced further since 1990 than in the previous 100 years. One reason for this has been the surprising progress made since its creation in 1991 by the Mercosur trade area.

Mercosur - Mercosul in Portuguese - is an acronym for the Common Market of the South, created under the Treaty of Asunción by the governments of Argentina, Brazil, Paraguay and Uruguay.

Despite its name, it is still a long way from being a common market, because free movement of labour remains a distant and difficult prospect. But it has come a long way. Most trade within Mercosur is already tariff-free, although free trade in all products will not be realised until 2000. By then, agreements on cars and sugar should have been concluded.

A common external tariff has also been adopted on most products. But the group will not become a full customs union until 2006. Then Paraguay and Uruguay should adopt for all products the common external tariff,

which ranges from zero to 20 per cent, five years after the target date for Brazil and Argentina to do the same.

Mercosur has also widened. Chile acceded in October as an associate member, meaning it will become part of the group's free trade zone without adopting the common external tariff. Bolivia, a member of the Andean Pact trade area, negotiated a similar association in December.

Negotiations for a free trade association with other members of the Andean group - Colombia, Ecuador, Peru and Venezuela - could start this year. Talks with Mexico may follow soon after.

The group is also in talks - going slowly - to establish a trade area with the European Union.

Since its members started reducing tariffs on one another's products in 1991, trade within Mercosur has grown rapidly - at an average 27 per cent a year from 1990 to 1996, at a time when members' trade with the rest of the world expanded an annual 7.5 per cent. One fifth of the four countries' foreign trade is now conducted with the other three Mercosur members, compared with 9 per cent in 1990.

Trade between Brazil and Argentina has quadrupled since 1990 to more than \$15bn last year and is forecast to double again in the next six years.

Some critics have seen this growth as a sign that the group may be a stumbling block to free trade, rather than a building block. Mr Alexander Yeats, principal economist of the World Bank's International Trade Division, argued in a paper that emerged in October that intra-Mercosur exports were "growing most rapidly for products where there is no evidence that Mercosur has any natural comparative advantage."

Supporters retorted that the growth of intra-Mercosur trade reflected rapid growth in the region's imports from all sources since the economies were opened at the turn of the decade.

Even supporters agree, however, that there are important imperfections in Mercosur from a free trade standpoint, not least in a protectionist vehicle regime.

Mercosur has, however, an importance beyond trade. Export growth to Brazil has already, say some economists, helped Argentina survive a severe test of its anti-inflation programme in the aftermath of the Mexican financial crisis in 1995.

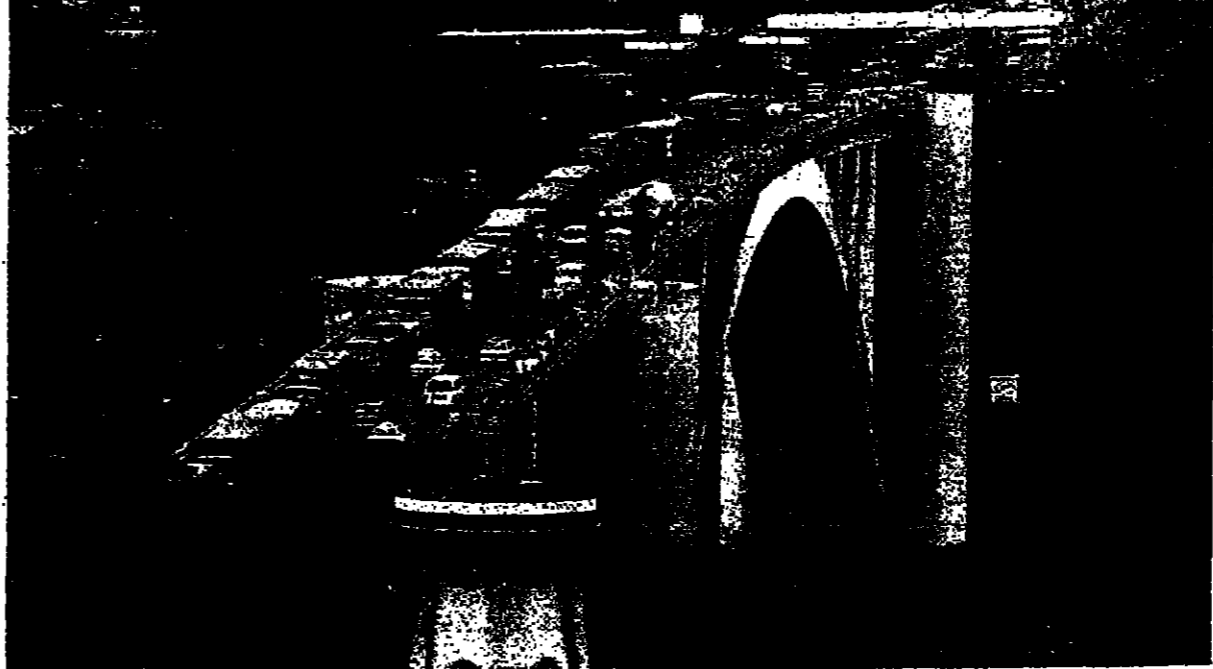
Moreover, pressure from other Mercosur governments was critical in thwarting an attempted military coup last year in Paraguay.

Nonetheless, as Mercosur has progressed, the difficulties of integration have become more apparent.

The region's infrastructure is ill-equipped to deal with the growth of trade that has already taken place. But such difficulties for exporters are compounded by available practical obstacles.

According to road hauliers, it can take three days to accomplish the main border crossing between Brazil and Argentina at Uruguiana. Most of the problems are down to obstructive officials.

"At the moment it is chaos. It is a question of mentality. We have told this to the authorities," said Mr



The region's infrastructure is ill-equipped to deal with the growth of trade that has already taken place. Trucks line up to cross the bridge linking Brazil and Paraguay at Foz de Iguaçu, Brazil.

| Full members | | | | Associates | | |
|----------------------|-----------|--------|----------|------------|---------|--------|
| | Argentina | Brazil | Paraguay | Uruguay | Bolivia | Chile |
| 1995 figures | | | | | | |
| Population (million) | 34.6 | 156.9 | 4.8 | 3.2 | 8.1 | 14.2 |
| Real GDP (\$bn) | 281 | 678 | 8.9 | 17.8 | 7.0 | 67.3 |
| GDP per head (\$) | 8,121 | 4,335 | 1,854 | 5,563 | 864 | 4,739 |
| Exports (\$bn) | 20,893 | 46,500 | 1,892 | 2,106 | 1,041 | 16,039 |
| Imports (\$bn) | 18,728 | 49,700 | 3,967 | 2,967 | 1,263 | 14,565 |

Remigio Vitores, owner of Vitoras Transportes de Chile which has a 100-strong fleet of heavy trucks. Mr Raul Medina of Transportes San Carlos of Argentina added: "Ultimately, we would like to see one combined post at the borders, not one for each country."

Another border problem is that goods imported from outside Mercosur often attract tariffs twice - both at their port of entry and then again when they cross the border.

More fundamentally perhaps, integration has reached the stage where a range of co-ordinated policies is now widely seen as

necessary. These include a unified competition code, a common anti-dumping policy, and the need to incorporate services into the Mercosur agreement.

Tax harmonisation is another issue. According to Mr Michel Abdo Alahy, executive vice-president of the Association of Brazilian Companies for Integration into Mercosur, companies in Brazil are disadvantaged by the amount of tax they pay. In Brazil, tax accounts for an average of 42 per cent of production costs; in Argentina 28 per cent; in Uruguay 26 per cent; and Paraguay 20 per cent.

Issues such as public ser-

vice procurement also have to be tackled. Argentine construction companies complain that they do not receive the same treatment in Brazil as Brazilian companies get in Argentina. Another area where there is unequal treatment is in the oil sector, where in Brazil there is a state monopoly and where Argentina has an open market.

Brazil concerns its partners in other ways. A presidential decree last month to provide incentives to car-makers to move to the north-east, for example, has brought a worried response from Argentina.

"The main issue that con-

cerns us at the moment is the location of new investment, and the beggar-my-neighbour tactics being used by Brazilian states fighting for corporate investment," said a senior trade official in Buenos Aires.

Argentine officials are also concerned that other practical difficulties for exporters to Brazil - for example, the double tariff - may encourage most Mercosur investment to head for Brazil. "Difficulties in entering the Brazilian market become incentives to invest there," said one.

The attitude of Brazil to its smaller partners is thus central to the development

of Mercosur. This is particularly so because Mercosur lacks an institution such as the European Commission that can advance integration when the political will to do so is weak, or prevent it from going into reverse.

Mr Alieto Guadagni, Argentina's secretary of industry, commerce and mining, says: "We don't want to create a huge and costly bureaucracy, but we have to take care that we don't lose dynamism."

But Brazil - which accounts for 70 per cent of the grouping's production and population - has strongly resisted a supranational bureaucracy or court for Mercosur. As a result, most difficult decisions find their way to the four heads of state themselves.

Until now, there has been no lack of political will towards the development of Mercosur, although Brasilia has been cooler on the idea of pursuing rapid negotiations soon on a free trade area from Alaska to Tierra del Fuego. Leaders from the western hemisphere agreed this more than two years ago at a summit in Miami.

However, even if Brazilian President Fernando Henrique Cardoso secures reelection for another four-year term next year, continued political backing for Mercosur will also depend on the continued success of Brazil's and Argentina's anti-inflation programmes.

A return of inflation in either country would increase strains on the other economy and on Mercosur itself. As time passes, in any case, there will be greater pressure for economic policy co-ordination.

"A common market will require greater institutionalisation of Mercosur and will need greater harmonisation of exchange rates and other economic policies," said Mr Benedito Fries, head of the foreign trade department at Fieap, the São Paulo employers' federation.

Mercosur's success so far has led to parallels with the process of European integration. But the European Union has been driven by institutions which Mercosur lacks. As a result, further progress towards integration may well prove more difficult than the surprising advances made to date.



República Argentina



República Oriental del Uruguay

COMISION BINACIONAL PUENTE BUENOS AIRES - COLONIA

INTERNATIONAL BIDDING FOR THE DESIGN, CONSTRUCTION, OPERATION AND MAINTENANCE - AS A CONCESSION OF PUBLIC WORKS (BOT) - OF A BRIDGE CROSSING THE RIVER PLATE BETWEEN ARGENTINA AND URUGUAY.

The Comision Binacional Puente Buenos Aires - Colonia (COBAICO), pursuant to the Reversal Notes signed by the Governments of Argentina and Uruguay on May 18th, 1996, hereby invites companies interested in the Pre-qualification and Data-Room leading to participate in an International Bid for the Design, Construction, Operation and Maintenance as a Concession of Public Works (BOT), of a bridge crossing the River Plate between Punta Lara (Argentina) and the proximity of Colonia del Sacramento (Uruguay), with an approximate of 41 km.

The International Bidding shall take the following steps:

1. Submission of Pre-qualification Information
2. Registration
3. Pre-qualification
4. Data Room
5. Bid Proposals
6. Qualification
7. Selection and Award

Pre-qualification Conditions and the Specifications List will be available on January 20th, 1997, in the following addresses.

Specifications List price: US\$ 1,000 (one thousand dollars)

Com. Binacional Puente Buenos Aires - Colonia
(Delegación Argentina)
Leandro N. Alem 449 1er piso
C.P. 1003, Buenos Aires, Argentina
Tel: (541) 315-4744, 315-4742
Fax: (541) 312-1739
E-mail: cobaico@interactive.com.ar

Com. Binacional Puente Buenos Aires - Colonia
(Delegación Uruguaya)
Ciudadela 1414 2do. piso
C.P. 11000, Montevideo, Uruguay
Tel: (5982) 907-801, 907-437
Fax: (5982) 920-876
E-mail: puentebc@adinet.com.uy

ANNOUNCEMENT OF THE PRIVATIZATION OF THE PORT OF ROSARIO, ARGENTINA

Call for Qualifications

ENTE ADMINISTRADOR PUERTO ROSARIO (EN.A.P.R.O.) officially announces the start of its program to privatize the Port of Rosario, a multi-purpose general cargo facility on the Parana River in the Province of Santa Fe that serves both a major local market and countries of the broader MERCOSUR region. Accordingly, it invites those firms wishing to participate in the privatization program to submit *Statements of Qualification* that are in accordance with the *Preliminary Bid Specifications* that will be used to guide this process. The EN.A.P.R.O. privatization program calls for the concession agreement (s) to be signed and the Port transferred during 1997. A summary of the schedule for the first phase of the EN.A.P.R.O. privatization program is presented below.

Publish Qualification Requirements and Sale of Preliminary Specifications: EN.A.P.R.O. will make these documents available at its head office in Rosario from January 20 to April 7, 1997 between 9:00 a.m. and 5:00 p.m. The purchase price for the *Preliminary Specifications* is US\$5,000. Copies will be made available free of charge to any interested party on a for reference only basis.

Port and Data Room Visits: Parties who have purchased the Preliminary Bid Specifications may tour the port technical information displayed in the Data Room beginning February 3, 1997.

Conduct Investor Seminars: Meetings with prospective investors will be held in:
• Houston, USA: February 27, 1997 - 9:00am - Hilton Houston Plaza, 6633 Travis St.
• London, UK: March 3, 1997 - 11:00am - The London Chamber of Commerce and Industry, 33 Queen St.
• Madrid, Spain: March 7, 1997 - 1:30 pm - Hotel Villa Magna, Paseo De La Castellana 22
• Buenos Aires, Argentina: March 10, 1997 - 5:00 pm - Union Industrial Argentina, 1067 Alem Ave.

Submission of Qualifications: The deadline for submitting investor *Statements of Qualifications* is April 7, 1997 at 6:00 p.m. Only those documents that have been received by this time at the EN.A.P.R.O. head office in Rosario, Argentina will receive consideration.

For additional information regarding this privatization program please contact:

In Argentina:

EN.A.P.R.O.
Avenida Belgrano 341
2000-Rosario, Argentina
Attn: Sr. Marcelo PREMOLI
Ing. Pedro R. MANNO
Tel: 54-41-48 7105
FAX: 54-41-48 5010 / 21 3246
E-mail: enapro@interactive.com.ar

In the United States:

MFM Management for Meetings
Mr. W. Daniel Lamey
Tel: 1 (202) 347-2725
FAX: 1 (202) 783-3345
E-Mail: wdalamey@capaccess.org

Handwritten signature or stamp.

■ Barriers to trade: by David Pilling

Down-to-earth difficulties

Many of the customs union's problems will take several years to resolve

When Argentine truck drivers hauling goods to Brazil went on strike last December, two of their demands were of the most basic kind: that toilets be installed at the frontier and that customs officials stop demanding bribes.

Against the yardstick of Europe, which took 40 years to achieve today's still-imperfect economic union, the four Mercosur countries have built their customs union at lightning speed. Between 1990 and 1996, trade among Mercosur's principal partners nearly quadrupled from \$4.1bn to about \$15bn as tariff barriers tumbled and the political decision to unite was taken.

But on the ground, not surprisingly, real unity remains a long way off. The truckers' demands highlight the fact that grandiose political decisions do not change basic realities such as poor physical infrastructure or the attitude of officials used to protecting their own narrow interests.

"Mercosur is very new. It's not going to take 30 years to perfect it (as in Europe), but it will take five or 10 years," says Mr Juan Tassellkraut, plant manager at Mercedes-Benz in Argentina.

Mercosur itself, which like most Mercosur-based vehicle manufacturers is continually hauling parts and vehicles between its plants in Argentina and Brazil, says it has little problem with border delays. But smaller companies without the clout of the big multinationals complain of unnecessary bureaucracy and demands for bribes.

The road network between Argentina and Brazil, through which the vast bulk of Mercosur trade flows, is not adequate to meet today's demands efficiently, let alone those of the future. Railways are on a different gauge and the electricity grids are incompatible. When an Argentine bridge was unexpectedly closed for repairs late last year, it made national headlines because of the resulting chaos and financial losses.

Things are improving. "Truckers interviewed at the [Argentine-Brazilian] border say the inspection process is much quicker than it was a couple of years ago," according to a Mercosur report prepared by Orbis, a Washington-based business publisher. "Waits of several days or even weeks to cross the border - common in the early 1990s - are now extremely rare."

Just 1 or 2 per cent of trucks coming from Brazil are held up at the border for more than a day, compared with 20 per cent three years ago, the report says.

Mercosur countries are working towards the goal of standardising health certificates, so that a clean bill of health awarded to a product in one Mercosur country is acceptable to border officials in any of the others. Non-recognition of an Argentine certificate by, say, a Uruguayan or Brazilian official is one of the main causes of transport hold-ups.

Even here, there are improvements. According to



Subsidence on a Brazilian road: The road network between Argentina and Brazil, through which the vast bulk of Mercosur trade flows, is not adequate to meet today's demands efficiently, let alone those of the future

Orbis, Argentine truckers carrying wine to Brazil used to have to wait at least five days while their cargo was sent to be analysed at a lab in Porto Alegre, 600km from the border post. Goods are now checked at Uruguaiana, at the frontier itself.

The importance of improving infrastructure - for years constructed with the aim of servicing European or US, but not regional, markets - is never far from the political agenda. But there are disagreements as to how more rational links should be forged.

Mr Ricardo Lagos, Chile's public works minister, has called for more government spending on road projects between Mercosur states. Without such a commitment, he says, the dream of a bi-oceanic block will remain just that. Other officials, notably those in Argentina, are wary of state involvement, believing this often leads to construction of white elephants.

Mr Juan Carlos Wasmosy, president of Paraguay, Mercosur's most physically isolated state, is understand-



Juan Carlos Wasmosy: a big fan of infrastructural development

ably a big fan of infrastructural development. He envisions "interconnections through roads [that] will combine with railways, waterways and air routes to criss-cross South America from the Matto Grosso (in Brazil) to Buenos Aires, and from the Atlantic coast to the Pacific Ocean." That his vision sounds so futuristic indicates just how far there is to go.

And the barriers to trade are not purely physical. The long-sighted aspirations of Mer-

cosur's four very different members are also cause for concern.

Uruguay discovered this to its cost last year when Brazil, wary of cheap Asian textiles flooding its market, placed punitive non-tariff barriers on textile imports. Without realising it, the mighty Brazilian beast had swatted the tiny Uruguayan fly. Montevideo reacted bitterly to the measure, which would have caused severe damage to its own textile sector. After much pleading and a series of hastily convened bilateral meetings, it won redemption.

But Uruguayan officials say the incident - repeated a few months later when Brasilia granted tax breaks to car plants basing themselves in northern Brazil - underscores the need for a formalised complaints settlements body. Arbitration could thus be effected more rapidly and without relying on the good will of one or other of the Mercosur partners.

Paraguay, and to a lesser extent Argentina, agree that Mercosur must become more institutionalised if it is to

avoid repeated disputes. But Brazil, the big kid on the block, is reluctant to give up its ability to act unilaterally or to tinker with Mercosur's rules when these suit its macro-economic goals.

Brazil, too, is less keen to move rapidly on labour, environmental or tax standards, or to build a free market in services - such as banking or air travel. On the other hand, neither Argentina nor Uruguay are in any hurry to see the free movement of labour within Mercosur, fearing that this could promote a flood of job-seekers from the union's poorest regions.

Such differences of opinion, born of the asymmetrical nature of Mercosur's four economies, have not yet spilled over into overt friction. Trade disputes that have arisen have been settled on an ad-hoc basis, often through force of presidential will.

But as Mercosur trade expands, inevitably multiplying the number of disputes, such informal methods of arbitration are likely to prove inadequate.

■ Uruguay and Paraguay: by David Pilling

Dwarfed by new partners

The two smallest members of the bloc are already beginning to feel its impact

If Mercosur were a single country, its 200m inhabitants would make it the world's fourth most populous, and its \$1,000bn economy would rank seventh in the world.

But two of the bloc's four members - Paraguay and Uruguay - have a combined population of a mere 8m, and a joint gross domestic product of \$25bn, leaving them dwarfed by their new-found economic partners.

The arithmetic serves to illustrate just what these two small countries have locked themselves into. Mercosur expands the potential market for manufacturers in either country by more than 50, but likewise exposes them to competition from Argentine or Brazilian companies used to operating with incomparably greater economies of scale.

Uruguayan officials say increased competition has not been such a shock because the country has been unilaterally lowering its tariff barriers for two decades. Many uncompetitive companies, particularly in sectors such as chemicals, plastics and domestic appliances, had already been weeded out before the customs union formally began in January 1995, leaving only those better suited to compete.

"Uruguay believes that this competition can be beneficial for our companies, in that it will oblige them to upgrade their operations permanently," says Mr Alvaro Ramos, Uruguay's foreign minister.

President Julio María Sanguinetti believes Uruguay's companies cannot hope to produce everything, but should specialise and exploit

the country's competitive advantages. These include a highly educated workforce, as well as strong agricultural, offshore banking and tourist sectors, he says.

Paper company Sanapel and rice producer Saman are two companies that have exploited the potential of the expanded market by concentrating on a narrower range of products and by marketing aggressively in the region. Saman has set up a subsidiary in Brazil and has adapted its products to suit that market.

Other companies have chosen to club together to achieve the necessary economies of scale. Allmura groups eight food producers which export to a single distribution point they have established in Porto Alegre, southern Brazil.

Uruguay, in addition to its pretensions as an offshore regional banking centre, also hopes that its capital, Montevideo, will become the Brussels of South America as Mercosur begins to develop supranational bodies. Uruguay would be a natural choice for such a role, but Mercosur may not move as rapidly as Montevideo would like towards establishing a permanent bureaucracy.

Paraguay, the poorest country in Mercosur with a per capita income of just over \$1,500, is South America's least industrialised country. Of the four partners it has most to gain from the customs union, although arguably least to offer.

Paraguayan officials disagree. For President Juan Carlos Wasmosy, Paraguay has "clear advantages" in cheap and abundant energy, and in the agricultural products that make up 95 per cent of its official exports, principally soy, cotton and meat.

It is also macro-economically stable, with the lowest per capita public debt in the region. However, much of Paraguay's healthy balance



Sanguinetti believes Uruguay's companies should specialise

sheet is based on its huge illicit economy, notably smuggling, an activity that could be squeezed as Mercosur's internal tariffs are lowered.

Paraguay's cheap labour and low taxes (income tax does not exist) could be a potential draw for investors. Its vast hydro-electric resources, which provide the cheapest energy in the world, could also be an attractive proposition for electro-intensive industries.

But little investment has yet materialised. Paraguay's skills base is low, its infrastructure poor and its mainly state-owned services riddled by inefficiencies and corruption.

Until Mercosur is more firmly established, few manufacturers are likely to base themselves in Paraguay. Should the free trade area for some reason fail, investors would be left with a market of only 4.5m relatively poor Paraguayans.

But, in one sense, Mercosur has already been invaluable in helping Paraguay's ambitions to become more modern.

When, last April, General Lino Oviedo reved up his tanks to mark the start of a very old-fashioned coup, Mercosur's leaders made it abundantly clear that dictatorship would be excluded from the union.

For Paraguayans exasperated with decades of military rule, that alone may have been worth the price of Mercosur admission.

PROFILE Industries Klabin de Papel e Celulose

Aloof attitude is evaporating

In common with many other large Brazilian companies, Klabin de Papel e Celulose took a relaxed view of Mercosur when the free-trade area was founded.

With the Brazilian economy dominating the Mercosur region - it provides about 70 per cent of the combined gross domestic product of the four countries - the opening up of the Mercosur region did not represent such a significant opportunity for Brazil as it did for its three neighbours.

Many Brazilian companies were concentrating on other markets. Klabin, one of Latin America's largest paper and pulp companies, exports 30 per cent of its production and already had well-established overseas markets, particularly in Europe.

However, that aloof attitude to Mercosur is now changing. Klabin is about to become the first Brazilian paper group to set up a production facility in Argentina. The new factory, at Pilar, 50km from Buenos Aires, is set to start production of envelopes and sacks in the second half of this year.

The initial investment of \$30m in the new facility is modest, but it is an indication of the increasing importance the group is attaching to the Mercosur markets. "We feel there are significant opportunities for us, especially in Argentina," says Mr Otilio Peres, a director of Klabin.

Klabin, founded in 1984, operates in most areas of the paper and pulp industry, including printing paper, paper sacks and envelopes, tissues, packaging paper, newspapers and recycling.

The group, which has 230,000ha of planted forest and sales in 1995 of \$1.28bn, is expected to list American Depositary Receipts (ADRs) in 1997.

The group actually began exporting to Argentina over six years ago and Mr Peres says it has taken Klabin some time to learn how the market works and to invest.

There are several reasons. The strong market in Brazil in 1994 and 1995, when the group was operating at full capacity, acted as a disincentive for it to look closely at neighbouring countries during those years, he says.

The most important factor, though, has been improvements in the Argentine economy over recent years. "There exists now a stable economic environment, with lots of potential for growth," Mr Peres claims. In particular, he believes the prospects

for the local cement and flour industries, which are important clients for the products to be produced at Pilar, will expand strongly.

As well as lower transport costs for domestic sales, another advantage of building a factory in Argentina will be more secure local customer orders, Mr Peres says.

The Argentine market is less developed than Brazil, he says, although it is becoming more competitive, particularly since several Chilean companies have invested in the country.

The group will examine the performance of the Argentine plant to see if it might invest in extra facilities for other products. There is plenty of land available at the Pilar site for further development, Mr Peres says.

However Klabin is also considering other investment opportunities in

the north-east of Brazil, which puts it at the forefront of one of Mercosur's thorniest issues.

Brazil's Mercosur partners have complained about the subsidies which the Brazilian states offer for direct investment, and Argentina has been particularly angered by a series of incentives offered to carmakers to build factories in Brazil's north-east.

Klabin already has a small plant in the north-eastern city of Recife and is examining the possibility of building another one there. Mr Peres points out that while the group will receive little in the way of incentives for building a plant in Argentina, in Recife it receives a number of state and federal government tax breaks.

Geoff Dyer

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FINANCIAL TIMES

III MERCOSUR

■ The motor industries: by Jonathan Wheatley

Brasilia rocks the boat

When Brazil's national interests are concerned, Mercosur takes second place

A rapid bout of shuttle diplomacy this month seems to have diluted what could have become Brazil and Argentina's second big dispute over the motor industry, after Brazil introduced incentives for manufacturers setting up in the country's underdeveloped north-east.

An earlier row, following Brazil's decision to set quotas for vehicle imports in mid-1995, was the biggest single threat to the unity of Mercosur since its inception. Policy disagreements notwithstanding, both countries have seen substantial expansion of their motor industries in the 1990s. Agreements reached within Mercosur can take some of the credit. But Brazilian policies in the past two years

have shown that when purely national interests are concerned, Mercosur takes second place.

The latest fracas concerns incentives decreed by President Fernando Henrique Cardoso of Brazil in December. The move was widely seen as a political favour to Mr Cardoso's congressional allies in the north-east, designed to guarantee support for a number of measures facing a difficult passage through Congress. Including a constitutional amendment which would allow the president to run for a second term of office in 1998.

Within days of the decree, Asia Motors of South Korea announced plans to build a \$500m factory in the north-eastern state of Bahia. Adefa, Argentina's main motor industry association, promptly called on the government not to recognise vehicles made there as Mercosur products. When Argentina's industry secretary

refused to rule out such a response, Mr Cardoso called on his neighbours to recognise the importance of domestic politics. A team from Brazil's trade ministry has since visited Buenos Aires to "explain" the measure.

"This was a political measure; it's the negative side of Brazil's auto regime," says Mr David Wheeler, an analyst at US brokerage Bear Stearns in São Paulo.

Mr Wheeler points to earlier examples of the government's willingness to use the motor industry as a means of controlling the wider economy. In September 1994, as part of its economic stabilisation programme, it lowered duties on vehicle imports from 35 per cent to 20 per cent in order to force down prices of locally-produced vehicles.

When Brazil's trade balance plunged into the red at the end of the year, it quickly rethought, raising tariffs to 32 per cent in Febru-

ary 1995 and to 70 per cent two months later. Soon after, it introduced quotas designed to cut the rate of vehicle imports by 50 per cent in the second half of the year.

Argentina, whose biggest market for vehicle exports is Brazil, was incensed. A diplomatic row bubbled until January 1996, when the countries reached a bilateral agreement designed to set policy for the motor industry until free trade is fully established within Mercosur at the turn of the century.

Under the agreement, manufacturers operating in both Argentina and Brazil may bring vehicles from one market to the other at zero tariffs, provided they send vehicles to the same value in the other direction. In addition, both countries agreed to recognise each other's domestic policies for the industry.

In Argentina's case, this meant incentives for production, export and investment



Volkswagen, Fiat, General Motors and Ford have all expanded production or plan to do so

that enabled output to increase from 90,000 vehicles in 1990 to 470,000 in 1994. In Brazil, it meant new measures designed to attract investments, including tax cuts on imports of capital goods.

Most significantly, manufacturers operating in Brazil may import vehicles from outside Mercosur at tariffs of 35 per cent, provided they export vehicles to the same value, giving them a strong advantage over rival importers who must pay the full 70 per cent tariff.

Brazil's policies had an immediate effect on invest-

ment in the industry. The big four manufacturers based there - Volkswagen, Fiat, General Motors and Ford - have all expanded production or plan to do so. Mercedes-Benz, BMW, Chrysler, Toyota, Honda, Kia and Asia Motors have revealed plans for Brazilian factories; Peugeot is expected to be next. In all, Brazil is expected to attract \$15bn in motor industry investments by the end of the decade; in the 1990s, investment was running at about \$700m a year.

Not surprisingly, Brazil's policies have found strong supporters among manufacturers. Mr Célio Batalha, director of government relations at Ford in São Paulo, describes them as "the most important expression of government industrial policy in recent years."

Brazil's trading partners have been less enthusiastic. The US, the EU, Japan, South Korea and Canada have all raised objections at the World Trade Organisation. This is far from being the only recent occasion on which Brazil has upset its trading partners with import restrictions. Measures to protect the textile and toy industries, among others,

have shown the government's propensity to waver from its avowed commitment to free trade when it sees fit.

International pressure is unlikely to have much impact on Brazil's motor industry policies. Consultations at the WTO could drag on for as long as three years, by which time Brazil plans to have reduced its tariffs to 20 per cent.

By then, says Mr Tullo Vigevani, a specialist in international relations at Cedec, a São Paulo research institute, Brazil will probably be firmly established as a global manufacturing base, particularly for cheaper cars.

Several carmakers investing in the country have said their plans include exporting to markets in Mercosur, the rest of Latin America and Europe. There is little doubt that production will increase well beyond the demands of the domestic market. Output in Brazil was about 1.8m vehicles in 1996, almost a 100 per cent increase since 1990, compared with domestic sales of 1.65m. By the end of the decade, production is expected to reach 2.5m vehicles.

■ Is Mercosur protectionist? by Stephen Fidler

Economist's report stirs controversy over trade pact's performance

Experts disagree over whether or not the arrangement serves as an important instrument of trade creation

Is Mercosur a protectionist fortress or an open economic zone that is encouraging world trade and economic efficiency? This dormant controversy was unleashed in October by a paper from Mr Alexander Yeats, principal economist of the World Bank's International Trade Division.

Mr Yeats's own opinion was clear from his report's title: *Does Mercosur's trade performance justify concerns about the effects of regional trade arrangements?* Yes!

The findings of his study, he said, "constitute the most convincing and disturbing evidence produced thus far that regional trade arrangements can be detrimental to both member and non-member countries."

The World Bank quickly distanced itself officially from the view, which was also immediately attacked by Mercosur's member governments. The report was even described by the more

conspiratorially-minded as a US-inspired shot across the bows of Mercosur. According to this view, the US fears that the would-be customs union of Brazil, Argentina, Uruguay and Paraguay will become the main vehicle for South American economic integration rather than the US-led North American Free Trade Agreement.

As described by Mr Yeats, the fears raised by Mercosur - and by extension the plethora of other such regional trade arrangements - are several-fold. They may divert attention from the more important multilateral negotiation process to reduce trade barriers; they may raise trade barriers against non-members, thereby undermining the achievements of the General Agreement on Tariffs and Trade; and their trade preferences for members of the same group may displace exports (and therefore investment) from more efficient third countries, a process known as trade diversion.

After examining the empirical evidence, Mr Yeats reached the conclusion that Mercosur was diverting trade. The products which were showing the greatest export growth within Mercosur "are those for which Mercosur has not demonstrated an ability to export

competitively elsewhere", he concluded. Three groups of products - transport equipment, non-electrical machinery and electrical machinery - accounted for more than half of the total increase in trade within the region from 1988 to 1994.

The "key point", according to Mr Yeats, "is that the regional orientation of exports is growing most rapidly for products where there is no evidence that Mercosur has any natural comparative advantage". He then showed that the tariffs were a principal factor in such "perverse" trade changes - and that non-tariff restrictions reinforced these trade distorting effects.

Mr Robert Devlin, chief of the Integration, Trade and Hemispheric Issues Division of the Inter-American Development Bank, was among those who leapt to the defence of Mercosur. He argued that since its inception in 1991 Mercosur's "open regionalism" has served as an important instrument of trade creation and modernisation.

Mr Devlin argued that if Mercosur was truly diverting trade it would "crowd out" imports from other sources. This had not occurred: the growth of intra-Mercosur imports merely captured the more general phe-

nomenon of rapidly increasing imports to the Mercosur countries, which had grown 180 per cent from 1990 to 1995, compared with just 50 per cent for exports.

While the share of Mercosur imports of total imports had risen, from 15 per cent to 19 per cent, so too had the shares of Nafta (from 23 to 24 per cent), the European Union (23 to 29 per cent), Japan and the newly-industrialised countries (8 to 11 per cent), with only the share of a group of less-developed countries declining from 30 to 18 per cent.

Moreover, when imports are examined sectorally or product-by-product, rather than exports as in the Yeats study, only one sector - fuel, minerals and metals - showed a shift towards Mercosur. Of 250 product categories, two-thirds of products did not change regional orientation between 1990 and 1995, or changed it in the direction of third countries. There was also a low correlation between Mercosur preferences and the change in regional orientation of imports.

Many of the imports that have shifted orientation towards Mercosur - such as those in the agricultural or agro-industrial sectors - could plausi-

bly reflect productive or supply advantages. Mr Devlin concluded there was no evidence of trade diversion. Moreover, the unilateral reduction of tariffs to third parties - the average Mercosur tariff on manufactures fell to 12 per cent in 1995 from 25 per cent in 1990 - was with other factors, such as greater economic stability, preparing Mercosur for the necessary next stage of its opening to the world.

Even supporters of Mercosur, such as Mr Devlin, agree with some of the criticisms. He admitted that the grouping "displayed some troubling imperfections that may be distorting trade". He added: "These merit closer study and Mercosur should be assisted in gradually eliminating them."

The usual butt of criticism, from the point of view of trade distortions, is the special car regime and the rules covering capital goods, under which Argentina agreed to increase its zero tariff on capital goods imports from outside Mercosur to match Brazil's tariff levels, which were coming down from very high levels previously.

But, even with the car regime, officials argue that the quality and price differentials between Mercosur and the industrialised countries are signifi-

cantly lower than existed a few years ago. According to recent estimates from the IADB, some \$7.5bn of planned investment is to be made in the car industry in the next few years. However, much of this, say Argentine officials, was to make up for the lack of investment during the 1980s. Moreover, some 59 per cent of Argentina's vehicle and spare parts imports in 1994-95 came from outside Mercosur, and some two-thirds of Brazilian imports, according to Argentine trade officials.

In any case, say officials from the region, it is also debatable whether Mercosur taken as a whole produces more trade distortions than other groupings such as Nafta or the EU.

Officials also argue that other economic distortions which have nothing to do with Mercosur have had their effect in encouraging more capital-intensive industry, rather than the labour-intensive processes that would, on the face of it, seem to be encouraged by a truly open trade regime.

"With the zero tariff we used to have on capital goods and a rigid labour market, it was probably easier for many companies to get capital than to get labour," said one official in Buenos Aires.

The climate in Brazil is good.



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Explosive pictorial lives

William Packer reviews the work of Fiona Rae and Gary Hume at the Saatchi Gallery

Fiona Rae and Gary Hume have much in common. They are painters more or less of an age, both in their middle thirties: both were students at the Goldsmiths' College in the late 1980s, where their careers overlapped and, in 1988, they took part in Damien Hirst's seminal *Freeze* exhibitions; and both in their time have been on the short-list for the Turner Prize. But there the similarities end.

Rae was successful almost from the moment she left art school. Hume had to wait a little longer, which in these impatient times came close to being left on the shelf. But then again there is something almost old-fashioned in the painterly nature of Rae's work: something that is altogether more of the 1980s in Hume's take-it-or-leave-it conceptual simplicities. To every thing there is a season, I suppose.

The essential difference between them is that the one has evolved and developed in her work by her engagement with the act and processes of painting: the other uses painting purely as an effective means to his end, which is the statement of the predetermined image. It is the difference between work that grows and is the expression of itself, and that which is the illustration of an idea.

It is not a question of either/or, nor of better or worse, but only of two artists set fairly far apart. Their representation in the Saatchi Collection is in each case retrospective, going back to 1989, and bringing us bang up-to-date. Rae is an abstract painter whose work carries veiled figurative allusions – a boat, a box, Mickey Mouse – and constant reference to modern art, though the particular *homage* shifts all the time: now Kandinsky, now Philip Guston, Clifford Still, late Picasso. The canvas is for her an arena within which to set up pic-

torial incidents upon which to improvise. The effects vary, giving us sometimes an over-view, as though looking down upon a field or plan, sometimes by contrast looking deep into a cosmic space, sometimes using flat areas of paint to screen off more close and theatrical a space. The earlier work is looser, more intuitively gestural and impulsive. The later is more dense and laboured across the surface, with an evident reliance upon mechanical devices, combing, scraping, dripping, and blotting the paint.

Hume's paintings are never less than interesting, drawing us in, despite their unapologetic physicality and awkwardness of handling, to their curiously violent and explosive pictorial life. We look on, as at a battle or disaster, with a curious mixture of horror and fascination, surprised by an unlooked-for beauty. They are clever too, perhaps too clever, for Rae is a true daughter of Goldsmiths', always rationalising, always justifying. "Painting is... problem solving, grappling with the language," she says. But the counter is there and all but recognised: "if you can't solve a painting at first, sometimes it goes out on a limb and becomes really interesting and unpredictable." Quite so. Solution and resolution are not at all the same thing, and she is too bright and real an artist not to sense, if not yet openly to acknowledge, that she has only to trust her intuition.

Gary Hume makes the very point by contradiction, for with him the idea comes first and last, with the painting no more than its graphic proposition. Andy Warhol is clearly an abiding influence, but unfortunately the aspirant lacks anything of the master's subtlety and ironical,



Veiled figurative allusions: 'Untitled (orange, green & black)', 1991 by Fiona Rae

dead-pan wit. He too can say "The surface is all you get of me," but the trouble is that he speaks no more than the truth. This surface of household paint, laid on thick, unmediated by any delicacy of touch, variety of texture or graphic flair, is all there is. Only the rationale, the excuse, the "what this work is all about," is left.

Hume first "made work about" doors, hospital swing doors, the support cut to size and painted with simple squares and circles for windows and protective panels. "If you didn't know they were doors, you might mistake the symmetrical patterns for cartoon faces or inscrutable signs. Decorative abstraction replaces paradox. Pattern-making asserts the right to surface." Heads he wins, tails we lose. Since he tired of doors, "having exhausted the theme," he has turned to other images, all expressed with the same ham-fistedness.

Mussolini's marble athletes in Rome thus inspired "a courageous shift into representation" with a series of schematic figures. "Whether you see the silhouette as erotic, threatening or both, is up to you." Indeed. In his "Begging for It", a praying figure has her arms painted black "to encourage sadomasochistic inferences." Is Hume subscribing to the virgin/whore dichotomy or subverting the very idea that women can be split into simplistic categories? His "Two Three-Leaf Clovers" is a decorative emblem representing the moment of conception – or of artistic inspiration. All is assertion, special-pleading that has nothing to do with paintings as paintings. It is vacuous nonsense.

Fiona Rae and Gary Hume: The Saatchi Gallery, 98a Boundary Road NW8, until April 6; open Thursdays to Sundays 12-6pm.

Very wise, and who would deny it? Yet there is something so predictably cosy about the whole show that such remarks become terribly cloying. The piece is every bit as tasteful and reverential as you hoped that it wouldn't be, and the frustrating thing is that it contains hints but it could have been a far more interesting play.

Beatrix touches on her lonely childhood, her difficult parents, her dark imagination and attacks of crippling shyness. But we never learn more about them or delve into their meaning for the writer. Throughout you are left wanting more, and another frustration of the evening is that meet her in her 60s on her Lake District farm, but through reminiscence she gradually shades in the past. Throughout she comes over as a woman for whom common sense and a keen imagination went hand in hand: by her death she owned 15 farms and 4,000 acres of land.

But at the same time, she sketches in her other side, the childlike ability to fantasise. From an early age, she informs us, she liked to make up stories. She talks us through the creation of some of her most beloved characters and offers advice to would-be authors: "Have something to say and write with an end in view" (her own first story was written in a letter to a sick child). And what emerges consistently is the writer's love of the countryside in all its grandeur and detail. "The only lasting peace of mind is nature," she proclaims, at one point, "and it would be well if children young and old would study it."

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Eddie Izzard: provides the cutting-edge weirdness

Concerts/David Murray

Sounds exotic

It was James Wood's extraordinary skill as a percussionist that first brought him public acclaim, but he has become a highly proficient conductor and composer as well. At the Queen Elizabeth Hall on Friday he conducted the London Sinfonietta in a programme he called "Sounds of Africa": a deceptive label for four appealing, quite disparate pieces with some "African" inspiration behind them.

Ligeti's glistering Piano Concerto, all superimposed patterns and layers, does not sound remotely African, but African rhythmic drumming is said to have fired his imagination. Pierre-Laurent Aimard was the brilliant, light-fingered soloist. Frank Denyer's *After the Rain* was more directly inspired by a Kenyan desert, when a long drought ended. A violin and a Japanese shakuhachi pursue an eerie duet, accompanied by a trio of moaning ocarinas and soft drumming: exotically attractive, shapely, meticulously imagined.

Thierry de Mey's *Frisking* is a clever 10-minute study in isomorphic rhythms, employing some standard instruments unconventionally played and several non-standard ones, with close-to-amplification. It intrigued, and did not outstay its welcome. The newest piece, however, Wood's own *The Parliament of Angels*, was more expansive, and truly exciting to hear.

It was inspired by frescoes in Bayeux Cathedral which depict musical angels playing a variety of instruments – instruments used in distinct contexts (sacred, military, for dancing),

and therefore probably never heard together. Wood wanted to imagine them in conversation: but first he had to devise modern equivalents for their obsolete sounds: a cimbalom standing in for the psaltery, cornemuse represented by saxophone and tuba, etc. The result is a curious band, enriched by a multi-national assemblage of the percussion that Wood understands so well.

This "parliament" sounded wonderfully fascinating, and very little like anything else one has heard. And unlike, say, Tan Dun's latest exoticism, Wood's piece has a clear, palpable structure (punctuated by tolling church bells), as well organised as any ordinary "symphonic" piece but more original. Wood is certainly on to something.

At the Barbican on Sunday, the pianist Joanna MacGregor addressed herself to more familiar exotica, Messiaen's vast, teeming *Vingt Regards sur l'enfant Jésus*: poignant post-Romantic harmonies, intricate Hindu rhythms, sensational pianism (derived as much from Liszt and Ravel). It was rather a splendid performance, heroically executed without an interval.

MacGregor was superbly fluent and accurate in the most furious pieces, though some stronger rhythmic thrust would have been better still. In the contemplative ones, dangerously drawn-out, her touch was exquisite and her sympathy boundless: evidently, she loves the work. At the end of the marathon there was great applause.

Theatre/Sarah Hemming

Cosy reminiscences

Because of threatened cuts last year, the Arts Council was unable to commit money to the tour that was central to Greenwich Theatre's ambitious new production of *Oh! What A Lovely War*. Thus Matthew Francis, the artistic director, was left with seven weeks to fill, and although *Beatriz* (first shown at Chichester Festival Theatre last summer) is scarcely at the cutting edge of drama, being a stodgily predictable one-woman play, it is given a tour de force performance by Patricia Routledge.

The monologue, written by Patrick Garland and Judy Taylor from the author's own words, are neatly threads back and forth through Beatrix Potter's life. We meet her in her 60s on her Lake District farm, but through reminiscence she gradually shades in the past. Throughout she comes over as a woman for whom common sense and a keen imagination went hand in hand: by her death she owned 15 farms and 4,000 acres of land.

But at the same time, she sketches in her other side, the childlike ability to fantasise. From an early age, she informs us, she liked to make up stories. She talks us through the creation of some of her most beloved characters and offers advice to would-be authors: "Have something to say and write with an end in view" (her own first story was written in a letter to a sick child). And what emerges consistently is the writer's love of the countryside in all its grandeur and detail. "The only lasting peace of mind is nature," she proclaims, at one point, "and it would be well if children young and old would study it."

Very wise, and who would deny it? Yet there is something so predictably cosy about the whole show that such remarks become terribly cloying. The piece is every bit as tasteful and reverential as you hoped that it wouldn't be, and the frustrating thing is that it contains hints but it could have been a far more interesting play.

Beatrix touches on her lonely childhood, her difficult parents, her dark imagination and attacks of crippling shyness. But we never learn more about them or delve into their meaning for the writer. Throughout you are left wanting more, and another frustration of the evening is that meet her in her 60s on her Lake District farm, but through reminiscence she gradually shades in the past. Throughout she comes over as a woman for whom common sense and a keen imagination went hand in hand: by her death she owned 15 farms and 4,000 acres of land.

But at the same time, she sketches in her other side, the childlike ability to fantasise. From an early age, she informs us, she liked to make up stories. She talks us through the creation of some of her most beloved characters and offers advice to would-be authors: "Have something to say and write with an end in view" (her own first story was written in a letter to a sick child). And what emerges consistently is the writer's love of the countryside in all its grandeur and detail. "The only lasting peace of mind is nature," she proclaims, at one point, "and it would be well if children young and old would study it."

Greenwich Theatre, London SE10 to February 15 (0181-858-7755).

Theatre/Ian Shuttleworth

Skilled improvisation

(Black Grape) Rydier, cavorting with wild abandon and specialising in depth-charges of vulgarity; and Eddie Izzard contributes the cutting-edge weirdness of the likes of Tricky.

Izzard, a man who has more or less registered the phrase "surreal rambling" as a trademark, might have proved to be the joker even in such a pack; in fact, his propensity for straying from the proper path proves bountiful. Few others would have made the connection between a chainsaw and Arthurian legend, digressed from a schoolroom scene into a contest with Mullerkey to see which of them could do the better impersonation of Deryck Gynler in *Please, Sir* or explained his wandering dialect with a visit to the Accent Exchange Board.

The team is experienced at dealing with the audience suggestions which fuel the show: they dispose of childishly naughty or ridiculous items in a few seconds in order to allow themselves 10 minutes or longer in scenes generated by more fertile material. Since part of the fun of watching improv is the prospect of seeing a performer stumped, the foursome also takes delight in leaving one another up the creek, though never quite without a paddle. (Frost, for instance, shows a steely determination to annoy Izzard by smudging his lipstick.) At other moments they seem disarmingly like a bunch of children mapping out the rules for "Let's pretend".

The enjoyment of improv comedy rests on generosity: performers

are prepared to find themselves being momentarily crappy and audiences willing to watch them being so, but to bear with them on the understanding that things move so quickly that their mistakes will seldom catch them up. The *One Word* quartet has no trouble in establishing such a compact as a foundation for two hours of don't-stop-to-think laughter. Moreover, despite the techno tapes and lighting which open each half, they plainly have the souls of rockers: the opening night was rounded off with the wanton destruction of their only props, four wooden stools, in finest Pete Townshend style.

At the Albany Theatre, London WC2, until March 16 (0171-867-1115).



Eddie Izzard: provides the cutting-edge weirdness

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Amsterdams Historisch Museum Tel: 31-20-5231822
● Peter de Grote en Holland: exhibition of objects collected by the Russian Tsar Peter the Great (1872-1725) during his stay in Holland. Included are paintings by 17th century Dutch masters, scientific instruments, personal belongings of the tsar and many other objects. The exhibition was previously shown at the Hermitage in St Petersburg; to Apr 13

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: with conductor Jan Krenz and trumpeter Gábor Tarkóvi perform works by Berlioz, Hummel and Liszt; to Apr 6, 7, 8

DUBLIN

EXHIBITION

Irish Museum of Modern Art Tel: 353-1-871866
● Louis Le Brocq: Paintings 1939-1996: retrospective comprising of more than 90 paintings by one of Ireland's best known artists, including a number of early works and group portraits; to Feb 16

JERUSALEM

EXHIBITION
Israel Museum Tel: 972-2-6708811
● Empire of the Sultans: Ottoman Art from the Collection of Nasser D. Khalili: this exhibition of Ottoman art from the collection of scholar, collector and benefactor Dr Nasser D. Khalili aims to reveal the rich artistic heritage of a dynasty which spanned more than six centuries. Comprising some 200 works, including a selection of calligraphy, Qur'ans manuscripts, arms and armour, metalwork, ceramics, textiles and scientific instruments, every aspect of life in the Ottoman Empire is explored, from military achievements to religious devotion; to Jun 1

LIVERPOOL

EXHIBITION
Tate Gallery Liverpool Tel: 44-151-7093223
● Characters and Conversations. British Art 1900-1930: display exploring the crossover between the Tate's British and Modern collections. The exhibition investigates the image and self-image of British artists who considered themselves modern

artists during the period 1900-1930. The artists represented include Henry Tonks, Gwen John, Christopher Nevins, Sylvia Gosse, Walter Sickert and David Bomberg; to Apr 20

LONDON

EXHIBITION
Institute of Contemporary Arts - ICA Galleries Tel: 44-171-9303647
● Belladonna: group show examining fin de siècle representations of horror and romance. Artists include Andreas Gursky, Paul Thek, Jeff Koons, Liza May Post, Bridget Riley, Anish Kapoor and Elizabeth Wright; to Apr 12
Whitechapel Art Gallery Tel: 44-171-5227888
● Tony Cragg: exhibition featuring new work by the British sculptor. Cragg's work often employs found materials and this show reflects recent experiments in his art; to Mar 9

OPERA

Royal Albert Hall Tel: 44-171-5898212
● Carmen: by Bizet. Conducted by Barry Wordsworth, performed by the BBC Concert Orchestra. Soloists include Yvonne Fontane, Klara Ullmann, Justin Lavender, Alan Woodrow and Virginia Kerr; 7.30pm; Feb 6, 7, 8, 9, 10, 11 (also 2.30pm)

MUNICH

EXHIBITION
Haus der Kunst Tel:

49-89-211270
● Richard Lindner: Retrospektive: the first large-scale exhibition of the illustrator and pop artist since his death in 1978. On display are 66 pieces, covering his early work from the 1940s through to later paintings where he used bold colours to recreate everyday images; from Feb 7 to Apr 27

NAPLES

EXHIBITION
Museo di Capodimonte Tel: 39-81-7441307
● Continuità: exhibition featuring a large group of 20th century artists from the collection of the Stedelijk Museum, Amsterdam. On display are works by Van Gogh, Matisse, Picasso, Chagall, Mondrian, De Kooning, Nauman, Warhol and others; to Apr 6

NEW YORK

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● A Different Reality: Symbolist Prints from the Collection: exhibition featuring more than 80 works on paper from the late 19th and early 20th centuries. Different aspects of Symbolism are represented by artists including Gauguin, Villard, Redon, Whistler, Munch and Beardsley; from Feb 7 to May 4
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Charles Rennie Mackintosh: this exhibition of about 250 works surveys the entire career of the 20th century architect and

designer Charles Rennie Mackintosh. The centrepiece of the exhibition is the Ladies' Luncheon Room from Miss Cranston's Ingram Street Tea Rooms - one of Mackintosh's four commissions for Miss Cranston. The room, which has not been seen since it was dismantled in 1971, is restored for this exhibition; to Feb 16

PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Bruce Nauman: exhibition based on the audiovisual work of Nauman, ranging from "photographs" and film-installations in the 1960s, to the video installations in the 1970s; to Mar 3

OPERA

Théâtre National de l'Opéra - Opéra Garnier Tel: 33-1 42 66 50 22
● Pelléas et Mélisande: by Debussy. Conducted by James Conlon, performed by the Orchestre et Chœurs de l'Opéra National de Paris. Soloists include Russell Braun, José van Dam and Victor von Haern; 7.30pm; Feb 7

SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall Tel: 1-415-864-6000
● San Francisco Symphony: with conductor Yuri Temirkanov and pianist Barry Douglas perform

works by Shostakovich, Beethoven and Rachmaninov; 8pm; Feb 5, 6 (2pm), 7, 8

EXHIBITION
SF MOMA - Museum of Modern Art Tel: 1-415-357-4000
● Katharina Fritsch: the first solo museum survey of work by the young German sculptor, who represented Germany in the summer 1995 Venice Biennale. Fritsch's work responds to the formalist notions embodied in minimal and conceptual art. She bases her sculptures on relics of ordinary living, including trinkets, household objects, souvenirs, and toys; to Mar 11

WASHINGTON

EXHIBITION
The Phillips Collection Tel: 1-202-387-2151
● Impressionists on the Seine: this exhibition explores the origins and context of Renoir's painting "Luncheon of the Boating Party" of 1880-81, for which no preliminary studies exist, by assembling works related in subject and style from the preceding decade by both Renoir and his contemporaries. The exhibition features 60 paintings from international collections by such artists as Renoir, Monet, Manet, Pissarro, Caillebotte, Morisot and Sisley; to Feb 9

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FT Business Morning

10.00
European Money Wheel
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17.30
Financial Times Business Tonight

CNBC:
08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight



Martin Wolf

Laced into a Tory corset

Labour will find it impossible to deliver better public services, having committed itself to the government's restrained spending plans until 1999

"No one pretends that democracy is perfect or all-wise," Sir Winston Churchill told the House of Commons almost exactly 50 years ago. "Indeed it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time."

The approach of elections in the UK's mature democracy makes the most devoted adherents appreciate how bad those others must be. But nothing is quite so dismal as the debate on taxes and spending in which the Labour party has now committed itself to some implausibly tight targets.

If Labour - new or old - stands for anything, it is better public services. Yet Mr Gordon Brown, the shadow chancellor, has announced his intention to stick to the spending plans for 1997-98 and 1998-99 that were set out by Mr Kenneth Clarke in his November Budget.

Consider a few nasty facts about those plans for public spending: the real rise in overall spending between 1996-97 and 1998-99 is 0.7 per cent; in non-cyclical public spending it is 0.9 per cent; in spending on health, 0.3 per cent; in spending by the Department for Education and Employment, minus 9 per cent; and in local authority self-financed spending, it is zero.

The only important area in which spending is expected to grow significantly is non-cyclical social security, up 3.7 per cent over the three financial years.

Over the past two decades public spending has tended to grow roughly in line with gross domestic product. This financial year the share is expected to be 41 per cent, low by UK standards - and extremely low by those of the EU where the average is now some 50 per cent of GDP. Nevertheless, a decline is forecast by the government, to 39 per

cent of UK GDP by 1998-99.

How plausible is this? The three biggest areas of public spending are social security, health and education. Together they account for 60 per cent of public expenditure, up from under 50 per cent in the late 1970s. As the Institute for Fiscal Studies showed in its Green Budget, published in October, social security spending has grown at around 3.5 per cent a year in real terms since 1979-79, health at 3.4 per cent a year and education at roughly the same rate as the economy.

Evidently, historic rates of growth for health and education, in particular, are vastly higher than the plans Labour has now embraced. Meeting the government's targets will also require continuing constraints on the public sector pay bill and on public investment. Since pay settlements in the public sector have been in line with those in the private sector, there is no reason to expect a sudden surge in public sector wages.

The question is rather whether governments can maintain the squeeze on numbers of public sector employees, which have fallen continuously from

6.2m in 1985 to 5m in 1995.

Similar questions arise about net public investment, which shrank from 2.3 per cent of GDP in 1992-93 to 1.2 per cent in 1996-97 and is planned to fall to below 1 per cent of GDP by the end of the decade.

Over any two-year period it may be possible to put spending in a tight corset. But if it is too tight, the wearer will die of asphyxiation. That is also the risk here.

Public spending on investment, wages, social security, health and education can be kept on a low growth path only by delivering worse services or making radical policy changes. Why are these the alternatives? They follow from the underlying characteristics of the core public sector activities:

- As they grow richer, people want to spend a higher proportion of their incomes on education and health.
- Education and health are labour-intensive services - in which machines cannot easily be substituted for human labour.
- Ageing increases demand for health services and social security transfers.
- Technical progress in healthcare increases the

range of services available more than it reduces the cost of existing services.

● Infrastructure spending has to grow about as fast as the economy.

● Where infrastructure services are free, as in health, education and roads, payment must come from taxation. Whether the supplier is in the public or private sector is irrelevant.

One way to deal with the rapid growth in spending on the core services would be to force people to pay. There could be charges for visits to the doctor or hospital and fees for state schools. Education could even be privatised.

A second approach would be to admit that public spending will tend to rise at least as fast as GDP. In that case, tax revenues will also have to rise that quickly.

A third - but dishonest - approach is to promise both to improve the quality of public services and maintain a ruthless squeeze on public spending, without changing what people are required to pay.

The first two are the choices no politician wants to confront. So they choose the third. Labour is expected to improve public services. If it cannot do that, what is the good of it? But it has felt obliged to accept a spending squeeze that cannot be consistent with that objective.

It has done so to bury the "tax and spend" charge forever. However, it is unlikely even to achieve that. True, it may be possible to persuade enough of the people until the election. But even if Labour could keep to Mr Clarke's imaginative spending plans, it would almost certainly have to raise taxes by up to 2 percentage points of GDP.

This is because the government's plans still involve a higher public deficit than is prudent. The general government deficit is expected to be 3 1/2 per cent of GDP

this year and 2 1/2 per cent in 1997-98. A deficit of no more than 2 1/2 per cent of GDP is essential if the next government is to avoid an increase in the ratio of public debt to GDP.

But the deficit needs to be reduced to below 1 per cent of GDP if the UK is to meet the terms of the European Union's stability pact for the single currency or achieve the so-called "golden rule", which restricts borrowing to net public investment.

The economy has been expanding for about five years so it would be held to assume that it is still operating much below capacity. A structural fiscal tightening of up to 1 1/2-2 percentage points of GDP is needed therefore. Fiscal tightening is also needed for counter-cyclical reasons, to weaken the case for higher interest rates.

If a Labour government did not stick to Mr Clarke's spending plans, the fiscal adjustment might have to be still higher. For example, if public spending grew in line with GDP over the next two years, a further deficit of some 1 to 1 1/2 per cent of GDP might need to be covered. The overall fiscal adjustment would then have to be 3 per cent of GDP - about £25bn in current prices. Perhaps the threat of a spending squeeze that cannot be avoided for a few years. But, without radical reform, spending is almost certain to surge thereafter - well within a parliamentary term.

Labour can pretend to be able to improve public services, deliver implausibly tight public spending and avoid substantial tax increases. But it is most unlikely to succeed over a full term. It would then face the charge that - implicitly at least - it lied.

Swallowing Mr Clarke's bait may indeed help New Labour win the next election. It could already have lost it the one thereafter.

Personal View • Lamberto Dini

The Roman road

Italy's flexibility plan could make the EU work better but is no substitute for integration

Italy believes that flexibility is the way ahead for the European Union as it embarks on economic and monetary union and sets the pace for enlargement towards the east.

To have some groups of states proceeding faster than others is not necessarily going to destroy the solidarity of the Union, but their *modus operandi* needs to be carefully defined.

That is why I have submitted to our partners in the intergovernmental conference a comprehensive set of proposals which spell out how such flexibility may be implemented, and the principles on which it should be based.

The EU is formed by member states with equal rights and equal obligations: this will remain its essential character. Flexibility should be the exception rather than the rule: it will vest no one with a veto, and will operate through procedures adopted by the EU as a whole.

There should be a general clause in the revised Maastricht treaty allowing flexible arrangements, and setting down three essential principles:

- They must not put in question the *acquis communautaire*, the body of legal agreements which represents the main building blocks of the Union.
- They must take place within the established institutional framework of the Union.
- They must be open to participation by all member states at any time, thus avoiding any risk of discrimination.

Flexibility should not apply to the core areas of citizenship rights, freedom of movement, the common agricultural policy, competition, trade and cohesion policies. In other areas, flexibil-

ity can operate without predefined limitations. But in deciding to pursue such a course, care must be taken to safeguard vital interests while not impeding progress.

The Italian proposal would give the European Commission the exclusive right to submit proposals to the Council of Ministers for such "differentiated integration", as I would prefer to call it. All states have national interests - and if a particular group of "core" or strong states were able to advocate flexibility, EU aims and policies could be distorted.

Before making any proposal, the Commission should evaluate whether the proposed arrangements are consistent with EU policies, what their impact will be on all member states, and how states unwilling or unable to participate can do so later. The Commission, as the guardian of the treaties, is ideally placed for this task.

Any flexibility proposal would have to be approved by the Council of Ministers - there would be no direct rule from Brussels on this. The Council would vote on such a proposal by qualified majority.

To insist on unanimity in such cases would be tantamount to giving a permanent right of veto to any member state, which would defeat the purpose of a flexible arrangement. Flexibility should be neither the instrument of a minority to force ahead by marginalising others, nor a weapon for a minority to hinder initiatives pursued in a restricted framework with majority agreement.

Flexible arrangements would be implemented within the present institutional framework of the EU. This means that the Commission, the European Parliament and the Court of Justice would retain their full authority over such areas. Only in the Council of Ministers would "variable geometry" apply, with voting restricted to the participating states in areas subject to flexibility.

Similarly, flexibility should not apply to foreign policy, the so-called second

pillar of the Maastricht treaty. Member states which wish to move faster towards co-operation on security, defence and armaments - currently in the domain of the Western European Union - should do so within the existing institutional framework.

In justice and home affairs, the third pillar, the main priority will be to extend the opportunities for a limited number of countries to reach agreements such as the Schengen treaty, which has allowed several member states to dismantle border controls.

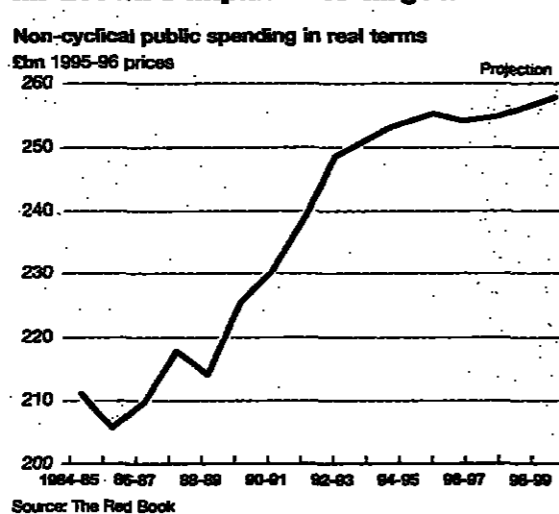
Flexibility is not a substitute for integration and should not aim at transforming the EU - it should be seen as a way of making it work more efficiently. It will give due account to what will increasingly become an extremely varied, if dynamic, pattern of co-operation and interests. It will have to balance diversity with cohesion: no member state will be allowed to block it and none will be able to hijack it for its own interests.

This is why the Italian proposals provide for both effective decision-making - through majority voting in the Council - and for consideration of the general interest by clearly defining the areas of application and the procedures. By giving the Commission the exclusive right to propose initiatives, they ensure that flexibility - wherever it is introduced, will not run counter to the grain of European co-operation.

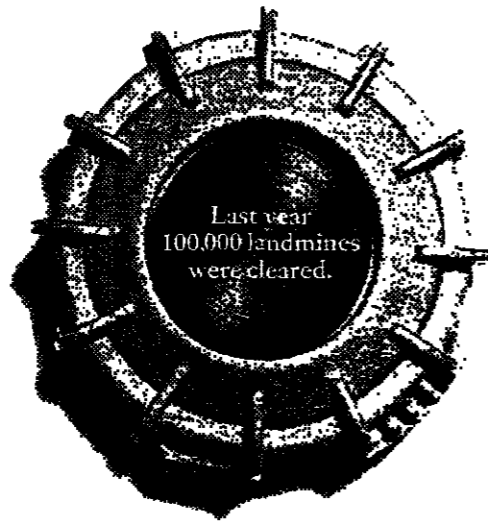
"Differentiated integration" is designed to play an important role in helping Europe evolve towards an "ever-closer Union", and will not trigger its fragmentation, as some may fear. Italy's proposals aim at clarifying the principles and setting up appropriate procedures to ensure a pragmatic balance between the aspirations of those who would like to leapfrog into the future, and those who are more cautious.

The author is Italian foreign minister

Mr Brown's implausible targets



DO YOU WANT THE GOOD NEWS?



OR THE BAD NEWS?



It just doesn't add up. The world is making more landmines than it can ever hope to clear. Unfortunately the problem isn't just a mathematical one. Every month over two thousand innocent civilians are maimed or killed

by anti-personnel mines in 71 different countries around the world. The weapons are in clear breach of international humanitarian law. That's the reason why the International Committee of the Red Cross is committed to a worldwide ban on the

production, export and use of these weapons.



INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)
LANDMINES MUST BE STOPPED

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Glaxo board move flouts governance code

From Lord Ezra.

Sir, The code on corporate governance, propounded by the Cadbury Committee in 1992, has been dealt a severe blow by the decision of the Glaxo Wellcome board to appoint an executive chairman ("Glaxo to axe non-executive chairman post", January 31). This would create just the sort of concentration of power which the Cadbury Committee was at pains to prevent and could potentially weaken the position of shareholders, particularly in times of difficulty. If the voluntary code is to be so easily flouted, and by such a leading company, the question arises of whether a more formal two-tier structure for the boards of British companies should be re-examined. I have served on

the supervisory board of a Dutch company and found relations between non-executive and executive directors were much clearer. In the UK there is considerable variability, even now after five years of Cadbury, in the role which non-executive directors play.

In the Netherlands there can be no doubt about it. The chairman of the management board is chief executive and runs the company with his executive directors. They are, however, responsible for the management of the company to the supervisory board of non-executive directors under their chairman, who presides both at board meetings and at the agm. Having a clearly defined supervisory structure does not, of course, pre-

vent companies from running into difficulties. It means, however, that once they do so, there is, in my experience, more likelihood of the difficulties being identified earlier and of relations with shareholders, banks and other creditors being handled more effectively than if the management on their own had to do it.

I know the Confederation of British Industry has recently rejected the idea of two-tier boards but what has now happened at Glaxo Wellcome calls for this concept to be reconsidered.

Derek Ezra,
House of Lords,
London SW1A 0PW, UK

From Mr Hugh Arthur.
Sir, I refer to your corpo-

rate governance at Glaxo Wellcome ("Glaxo to axe non-executive chairman post", January 31).

Dependence on overseas provinces for revenue... concentration of power in executive chairman - is Sir Richard Sykes perhaps seeking to model the Glaxo empire on any of the examples to be found in *The Cambridge Ancient History*, the complete set of which I see from your photograph lines the shelves of the company boardroom?

At least the annual general meeting has prudently been fixed to take place in May rather than March!

Hugh Arthur,
11 Wansford Close,
Brentwood,
Essex CM14 4PU, UK

Concern should be to cut own taxes

From Mr Bryan Cassidy MEP.

Sir, Lionel Barber highlights French and German concern over "beggar-my-neighbour" tax policies ("EU ministers open fire on tax poachers", January 31).

Too high tax levels are yet another aspect of the competitiveness of the French and German economies. Like the taxes on jobs (euphemistically called social charges) which those countries levy, too high rates of income tax and corporation tax are driving business away.

The EU becomes less and less competitive against the US because the wrong conclusions are drawn by the likes of Mr Theo Waligel, German finance minister, and his French opposite number, Mr Jean Arthuis. The correct analysis is that French and German tax rates need to be brought into line with more competitive tax rates in countries such as the UK.

We are starting to hear in the European parliament the use of the phrase "fiscal dumping" in the same way

as we have become accustomed to hearing about "social dumping". The use of both phrases indicates a head in the sand attitude to two of the most pressing problems which France and Germany have - uncompetitive tax rates and uncompetitive labour rates.

Bryan Cassidy,
MEP, Dorset and East Devon,
Bureau 827 Van Maerlant,
European Parliament,
97-113 Rue Belliard,
1040 Brussels, Belgium

Utilities are allowed over-generous returns

From Mr Gareth Thomas.

Sir, The FT500 (January 24) contained some alarming points for the customers of the monopoly utilities in the UK. In particular:

- Electric and water utilities in Britain enjoy a return on capital employed averaging 17.6 per cent.
- This puts them 28th out of 48 sectors. It is about the same as retailing, and higher than, for instance, textile products, oil, office equipment, building materials and paper and paper products.
- In the US, electric and

water utilities are, by the same measure, 40th of 43, in Japan 43rd of 44, in Europe as a whole 37th of 44.

Why does the regulator regime allow such generous returns in the UK? Utilities are monopolies. As the Monopolies and Mergers Commission said of the water industry, it "is one of relatively low risk given the almost absolute lack of actual and potential competitors". A reasonable pricing formula might be built on the cost base of the most efficient supplier (not necessar-

ily in the UK). It should allow returns in inverse proportion to the extent to which that benchmark was exceeded, subject to an overall limit (a modest real rate of return sufficient to attract capital). Such a formula would have a more profound and beneficial long-term impact on the utilities' real efficiency and on their customers than Labour's proposed windfall tax.

Gareth Thomas,
13 Rayleigh Road,
London SW15 3RE, UK

Loser may be social priorities

From Ms Christine Whitehead.

Sir, Simon Kuper's article, "A leap in the dark with microloans" (January 31), provides a good overview of some of the debates around microcredit. However, he is inaccurate in stating that Ben Rogaly and Oxfam argue that microcredit "could divert funds from less fashionable anti-poverty causes such as famine relief".

Oxfam's concern is that an over-emphasis on microcredit could lead to funds being diverted from social priorities such as health and education. We do not see it as competing with famine relief.

Microcredit should not be seen as a stand-alone, anti-poverty formula, but rather part of a broader, integrated strategy for combating poverty.

Christine Whitehead,
senior policy adviser,
Oxfam UK and
Ireland,
274 Banbury Road,
Oxford OX2 7DZ, UK

Handwritten signature or mark.

Brinkmanship over Cuba

Tuesday February 4 1997

The EU queue

Euro-jibes

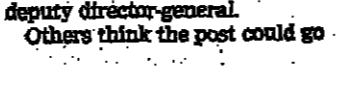
But there is a world of difference between the two parties' rhetoric - one suggesting cautious consideration and the other querulous dislike of the whole project. If the Conservative government turns the election campaign into a diatribe on Europe, it will do serious damage to Britain's interests. By adopting a more constructive tone, Labour could go some way to offering British voters the choice they need on ERM.

Germany's wealth of banks

Percentage of domestic banks' total assets

| Bank Type | Percentage of Assets |
|--------------------|----------------------|
| Co-operative banks | 18% |
| Others | 10% |
| Unlabeled | 42% |
| Unlabeled | 30% |

Includes mortgage banks
Deutsche Bank, Dresdner Bank,
Commerzbank



A pie chart illustrating the distribution of bank assets. The chart is divided into two main segments: a larger dark segment representing 'Public sector banks' at 40%, and a smaller light segment representing 'Private sector banks' at 35%. The 'Public sector banks' segment is further subdivided into a very small portion for 'Landesbanks' and a larger portion for 'other public banks'. The 'Private sector banks' segment is subdivided into a very small portion for 'big three' and a larger portion for 'other private banks'.

| Sector | Ownership Type | Percentage |
|----------------------|---------------------|------------|
| Public sector banks | Landesbanks | 4% |
| Public sector banks | Other public banks | 36% |
| Private sector banks | Big three | 9% |
| Private sector banks | Other private banks | 26% |

former allege that the latter received DM11.4bn (\$4.2bn) of capital at preferential rates. Landesbanks say the cost of this capital did not give them an unfair advantage.

By far the biggest sum went to WestLB, which obtained DM4bn when the state-owned Institut für die Promotion of Housebuilding (WfA) was integrated into the bank in 1992. The WfA provides low-interest loans for housing projects. While WestLB cannot use the money directly for other business, it can raise funds against the extra capital and

The accountancy group says the capital injection through the WILCO funds was a "distortion of competition." Because WestLB does not have private shareholders, the extra business it obtained through the capital increase did not have to earn such high returns as would be the case with commercial banks.

"It was and is possible for WestLB to grant credits to customers at better terms and conditions than comparable competitors," the report says. "For competitive reasons, this situation is unacceptable."

The accountancy group says

This gave WestLB a considerable advantage over the private banks of nearly 9 per cent in raising this capital, says Ernst & Young – equivalent to some

***selling one seat - yes, just one -
on each flight to its Luton***

Natwest Markets. They included Eddie George, Bank of England

seems the one-time dance hall impresario just can't sit down.

Muslim League 'set for Pakistan victory'

By Mark Nicholson in Rawalpindi and Farhan Bokhari in Lahore

Pakistan's Muslim League last night said it was heading for victory over the People's party, led by Ms Benazir Bhutto, in an election marked by a low turnout.

"We are winning from all over the country," said the PML's leader, Mr Nawaz Sharif, as his supporters came out on the streets of Lahore to celebrate.

Although the final count in yesterday's election was not expected until early today, many analysts thought his party would win enough seats either on its own or with allies to clinch a majority in the 217-seat national assembly, or lower house of parliament.

Opinion polls had earlier forecast that the PML would win 75-80 seats in the poll, which was called after Ms Bhutto's government was ousted by presidential order on

corruption and mismanagement charges in November.

However, the low turnout, which might have been below 30 per cent, raised questions about the legitimacy of the incoming government. Former Australian prime minister Malcolm Fraser, who is leading a Commonwealth team of observers, said "if the turnout was a low as many predicted the political parties should heed this serious message from the voters."

"It is clear that public respect for political parties has plummeted and democratic government [has been] discredited."

In an unusually frank assessment from an electoral observer, he said a change in the political culture of Pakistan was "critical to the effective development of Pakistan's democracy", but he added that his team was "satisfied" that those who wished to vote had been able to do so "in a largely peaceful election" and that the

electoral process had been "improved".

However, it appeared likely that Ms Bhutto would intensify her recent criticism of the conduct of yesterday's polls and say that Mr Farooq Leghari, the president, had used his powers to manufacture her defeat through measures such as bogus votes.

Mr Sharif's aides brushed aside concern about the low turnout. "The results will show that the votes cast for us have not gone down compared to votes cast for us in previous elections."

Mr Sharif extended an olive branch to Ms Bhutto, saying he wished to avoid acrimonious confrontation.

Cricketer-turned-politician Mr Imran Khan, whose Justice Movement is fielding 133 candidates, abstained from voting because his party did not have a representative in his home town of Mianwali. He himself is standing in nine constituencies.

Brussels attacks Deutsche Post over pricing

By Emma Tucker in Brussels

An investigation by the European Commission has uncovered evidence that from 1984 Deutsche Post, the German post office, has been trying to put rival private parcel services out of business by unlawfully undercutting their prices.

The German monopoly is accused of engaging in predatory pricing practices and abusing its dominant position in the letters market to cross-subsidise parcel services, granting substantial discounts to big business users.

The allegations are contained in a letter sent by the competition authorities in Brussels to Deutsche Post. The letter outlines the preliminary findings of the commission's inquiry which will shortly be followed by a formal statement of objections.

The results of the investigation come as Brussels competition officials grow increasingly concerned about record levels of state aid and distortions to competition in Germany, the EU's most powerful member state.

The inquiry was sparked by a complaint from UPS, the private postal company, more than two years ago. Once it has received the formal statement of objections, the German post office will then have two months to answer the allegations.

Unless Deutsche Post is able to convince the commission that it has not behaved unlawfully, it could face substantial fines. A decision against Deutsche Post would open the way for private parcel companies to seek compensation in the German courts.

The commission's findings are likely to provoke an outcry in Germany, which last year backed a French plan to postpone any significant opening of Europe's 575bn post market to competition until at least 2003.

Deutsche Post has the second highest stamp rate in the world and the highest rate in Europe.

In its letter, the commission says that on the basis of preliminary inquiries, it believes Deutsche Post "engaged in unlawful predatory pricing".

"We consider that the length of time during which this pricing policy has operated and the scale of Deutsche Post's losses indicates an intention by Deutsche Post to eliminate its competitors," the letter says.

In a further blow, the Commission is also investigating a complaint by UPS that the cross-subsidies made by the German post office to its parcel division amounted to state aid.

THE LEX COLUMN

Crossed wires

Cable and Wireless has hardly covered itself in glory with its German escape. The original deal with Veba tied C&W in knots, contributing to last year's difficulty in clinching a marriage to British Telecommunications. C&W will now be lucky to pull out of the Vebacom venture without reporting a loss. And if Veba dumps its 10.4 per cent C&W stake on the market, the shares could suffer.

There are certainly short-term attractions in pulling out: C&W will no longer have to carry its share of Vebacom's start-up losses, which are equivalent to about 10 per cent of earnings. If it were to use the cash it will receive for its stake in Vebacom to buy back the bulk of Veba's C&W stake, earnings per share would be further boosted. That would also remove the threat of a stock overhang depressing the share price.

Longer term, an unwinding of its arrangement with Veba ought to give C&W greater flexibility in cutting other deals. And there is no doubt that the group now needs a new European strategy. But hopes that C&W will be able to pull off a value-enhancing deal with a big international alliance such as Deutsche Telekom/France Telecom look overblown. Not only does C&W show little willingness to sell out completely, even if it did, last year's BT talks demonstrated that such a deal is almost impossible to cement.

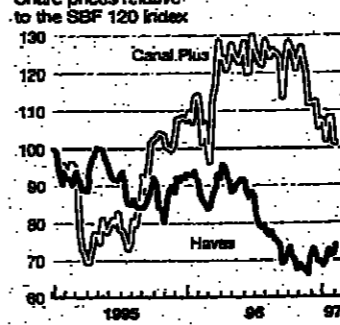
That said, a deal could stack up financially. Générale will be swapping a stake in Canal Plus, which is expected to earn nothing this year, for shares in profit-making Havas. But if such a transaction makes financial sense for Générale, it may not be so good for Havas, despite the industrial logic. So many new shares will be issued that its earnings could be diluted around 15 per cent.

Investors may be unenthusiastic, since Italian banks have been dogged by over-manning and inefficient management. Those who took shares in San Paolo's 1992 flotation are still nursing losses. Meanwhile, the last banking privatisations, Credito Italiano and Banca Commerciale Italiana, were hijacked by Mediobanca and allies, to the detriment of strategy and share price.

FTSE Eurotrack 200:
 2038.1 (+10.4)

French media

Share prices relative to the SBF 120 index



Source: Datastream

With a return on equity of 5 per cent, San Paolo at least offers room for improvement. And its aggressive push into asset management bodes well. If the management can demonstrate it will run this bank for investors - and much will depend on the identity of new core shareholders - the rewards will be considerable. This would then encourage other public sector banks to follow, and Italy could finally get the concentrated and efficient banking system about which politicians have talked so much and done so little.

Labour/Emu

When it comes to Emu, both Britain's main political parties are stuck on the fence. Yet even in this undignified posture, the gap separating the two is growing. This is not just a matter of ever more sceptical Conservative rhetoric; when Mr Robin Cook, shadow foreign secretary, says it would be difficult for Britain to stay outside Emu after 2002, investors should listen. For one thing, Mr Cook has traditionally been on the sceptical end of the Emu argument. For another, 2002 is not as far away as it sounds. The necessary preparations - independence for the Bank of England, re-entry into the exchange rate mechanism - would have to occur well before then.

To a newly-elected Labour government, moreover, planning on second-wave Emu entry would have its attractions. It would sustain Labour's pro-Europe credentials without bogging down its first years in the issue. It would buy Labour much credit with financial markets. And it could reasonably be defended, on the grounds that UK and continental economies have not yet converged enough to justify joining in the first wave. Currently, after all, UK interest rates are 6 per cent and rising; in Germany they are just over 3 per cent and falling.

Why is such speculation worth considering? Simply because a pro-Emu shift in the UK would drastically narrow gilts' current 1 1/2 percentage point spread over German bunds. And although such a shift is far from guaranteed, it is also true that current prices imply both that Emu will be successful and that Britain stays out in the long run. That combination, surely, looks far-fetched.

Additional Lex comment on Dizon, Page 29

Paris and London clash over EU economic policies

By Robert Peston in London and Hugh Carnegie in Stockholm

French and British political leaders clashed openly yesterday on the monetary and employment policies of the European Union.

Mr Alain Juppé, the French prime minister, on a short visit to London, said he was "deeply convinced" that the single currency "will be implemented next year, in 1998, [sic] and as you know France will be ready at that time to enter the single currency".

"Our budget policy, our anti-inflation policy and so on will allow us to meet the criteria," he said.

But Mr Malcolm Rifkind, the UK foreign secretary, said in Stockholm that he doubted Emu could go ahead on schedule in 1999 without resort to "fudges" and "creative accountancy".

Speaking to journalists, Mr Rifkind indicated his concern

that monetary union would "end in tears" if, however much it was desired by "Germany and France, with the Benelux countries" unless it was built on "solid economic grounds".

On the first leg of his tour of European capitals, designed to take the UK's vision of a "Europe of Nations" to EU citizens, Mr Rifkind was critical of Chancellor Helmut Kohl of Germany and President Jacques Chirac of France.

He listed the reforms they wished to drive through the EU and asked where their vision of further "integration" differed from "a United States of Europe".

Mr John Major, the British prime minister, was set to clash with Mr Juppé over the EU's approach to economic management and employment.

In a speech to 200 business people in Brussels tonight, he will argue that the "European model" is fundamentally flawed. In particular, he will describe the social chapter of

the EU employment policy, from which the UK has opted out, as a "Trojan horse" which would "bring us to our knees" if implemented in the UK.

By contrast, Mr Juppé insisted yesterday that France's adherence to the social chapter had not hindered job creation.

"I think there is no link between those two elements," Mr Juppé said, although Mr Major will today insist that Europe's relatively high unemployment rate is the direct result of the social chapter and other social legislation.

Mr Major will insist that the UK's more deregulated approach to economic management, the so-called "enterprise model", is more successful.

Mr John Prescott, deputy leader of the opposition Labour party, which is committed to signing up to the social chapter, said "no amount of lies about Labour" would disguise the Tories' "divisions on Europe".

Russia softens stance on Nato

Continued from Page 1

former Warsaw Pact countries and prohibited Nato members from positioning nuclear weapons close to Russia's borders.

Earlier yesterday, Mr Chubais told a press conference that "enlargement would be unacceptable to Russia under any conditions" even if a treaty with Nato were signed.

However, he softened his position substantially in an

interview with the Financial Times, stressing that Moscow would be much more flexible if a treaty were concluded.

He said he had spoken out so strongly in public because the reasons for opposition had not been clearly understood by the west.

He said some influential western figures had not understood how dramatically conditions in Russia had changed since the mid-1980s.

Toyota hit

Continued from Page 1

effect on Toyota's production, as it halted supplies of a wider range of parts.

Mazda was also damaged by the earthquake as it cut deliveries from the Kansai region.

Production at Mazda fell 15 per cent a month. A typhoon in 1993, which cut distribution routes, also hit the company because of its use of the just-in-time systems.

FT WEATHER GUIDE

Europe today

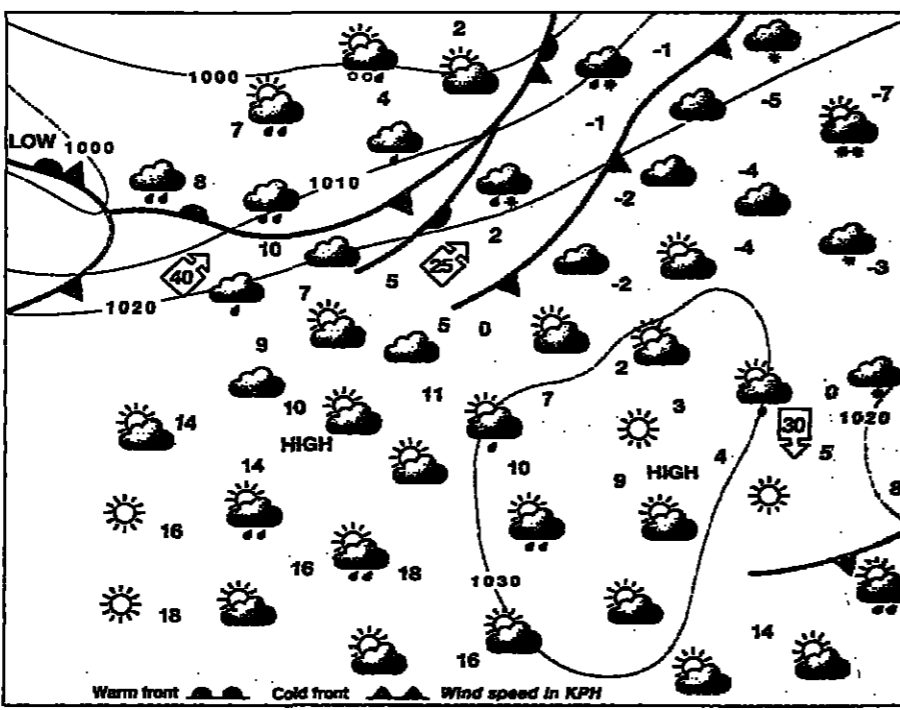
Ireland and most of England will have some rain. Wales may have an inch or even more in places. Scotland will be cloudy with scattered showers and some sunshine. The Benelux and northern Germany will be rainy. Southern Scandinavia will have sleet. France and Spain will have some cloud and sunshine. Portugal will be mainly sunny. Italy and Sardinia will have scattered showers. The Balkans and Greece will be sunny. Northern Turkey will gradually clear but the north-east will have some snow.

Five-day forecast

It will be rather unsettled and mild across north-west Europe. Rain will change to snow as a front moves into eastern Europe tomorrow and Thursday. Greece and western Turkey will have heavy showers later in the week.

TODAY'S TEMPERATURES

| | | | |
|-----------|-----------|--------------|----------|
| Abu Dhabi | Max 30 | Beijing | Min 1 |
| Algiers | sun 25 | Belfast | sun 11 |
| Amsterdam | thund 32 | Berlin | cloudy 4 |
| Athens | rain 16 | Bombay | rain 22 |
| Atlanta | fair 7 | Buenos Aires | rain 5 |
| B. Aires | rain 20 | Budapest | sun 0 |
| Bombay | fair 24 | Dublin | rain 10 |
| Bangkok | cloudy 32 | Edinburgh | fair 10 |
| Barcelona | cloudy 13 | Frankfurt | fair 26 |



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

| | | | | | |
|--------------|-----------|-------------|------------|--------------|------------|
| Paris | fair 17 | Madrid | fair 12 | Rangoon | fair 33 |
| London | cloudy 15 | Manila | showers 15 | Reykjavik | fair 15 |
| Amsterdam | cloudy 14 | Moscow | rain 16 | Rio | showers 28 |
| Berlin | rain 11 | Mumbai | rain 27 | S. Francisco | showers 15 |
| Bombay | rain 22 | Seoul | rain 20 | Singapore | cloudy 33 |
| Buenos Aires | rain 5 | Singapore | rain 27 | Stockholm | sleet 2 |
| Budapest | sun 0 | Sydney | rain 17 | Taipei | cloudy 26 |
| Dublin | rain 10 | Tamper | cloudy 17 | Tokyo | showers 10 |
| Edinburgh | fair 10 | Tel Aviv | cloudy 16 | Ulaanbaatar | cloudy 9 |
| Frankfurt | fair 26 | Tokyo | showers 10 | Vancouver | cloudy 9 |
| Geneva | cloudy 15 | Ulaanbaatar | cloudy 9 | Venice | sun 8 |
| Helsinki | sleet 1 | Vancouver | cloudy 9 | Warsaw | cloudy 1 |
| Hong Kong | rain 27 | Venice | sun 8 | Washington | rain 10 |
| Kobe | rain 20 | Warsaw | cloudy 1 | Wellington | showers 19 |
| Kuala Lumpur | thund 30 | Washington | rain 10 | Winnipeg | sun 6 |
| Kuwait | rain 9 | Wellington | showers 19 | Zurich | cloudy 3 |
| Laos | thund 28 | Winnipeg | sun 6 | | |
| Los Angeles | sun 21 | Zurich | cloudy 3 | | |
| Las Palmas | sun 22 | | | | |
| Lima | sun 26 | | | | |
| Lisbon | sun 16 | | | | |
| London | rain 12 | | | | |
| Luxembourg | cloudy 1 | | | | |
| Lyon | fair 5 | | | | |
| Madrid | fair 19 | | | | |

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FINANCIAL TIMES COMPANIES & MARKETS

Tuesday February 4 1997

Week 6

"Prepare 'reserves',
then act as though you have no
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KAZUO TANOMI, founder of Kyocera

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IN BRIEF

Apple to revamp system by 1998

Apple Computer unveiled plans to deliver a new operating system for its Macintosh personal computer by the middle of next year. The new system, code-named Rhapsody, will be issued in prototype form to application software developers later this year. Page 22

BAA profits increase by 6.2%

An increase in passenger numbers helped BAA, the airports group, to a 6.2 per cent rise in its third quarter pre-tax profits. The number of passengers using the group's seven airports - London's Heathrow, Gatwick and Stansted, and Glasgow, Edinburgh, Aberdeen and Southampton - rose 4.4 per cent. The airports handled 76.6m passengers. Page 29

Petrobras 17% rise in earnings

Petrobras, the state-owned oil and gas group which is the largest company in Brazil in terms of sales, increased net profits in 1996 by 17 per cent, from R\$570m to R\$664m (\$549.2m to \$639.9m). The group, which is set to lose its monopoly in the domestic oil industry, said turnover in 1996 had advanced 27 per cent to R\$23.8m. Page 22

KPMG disappointed by results

KPMG, one of the Big Six accountancy firms, saw gross fees rise by just 6 per cent to \$624m (\$1bn) in the year to September 30, but said income in the first quarter of the current year was up 15 per cent on last time. The figures were disclosed in the first audited accounts of a big accountancy firm. Page 29

French financial institutions provide inadequate information on their exposure to risks and have done little to improve the quality of their reporting over the past 12 months, says an influential report. The analysis is based on the latest annual reports of 50 financial institutions in France. Page 20

Metallgesellschaft expects profit rise
Metallgesellschaft, the German industrial and trading company, expects a further rise in profits in the financial year to September 30 after the 70 per cent rise in its pre-tax result to DM222m (\$177.7m) achieved in 1996-96. Page 20

Companies in this issue

| | | | |
|----------------------|----|----------------------|-------|
| ANZ Banking Group | 30 | Iberia | 20 |
| Aerospatiale | 1 | Inco | 22 |
| Aetna | 19 | Ind Dev Bank India | 19 |
| Air France | 20 | Intel | 22 |
| Alain Solid | 1 | JCV Sturvo | 20 |
| Alcatel Alsthom | 1 | KPMG | 29 |
| Alitalia | 20 | Knorr-Bremse | 20 |
| Apax Partners | 20 | Kredietbank | 2 |
| Apple Computer | 22 | Lagardere | 1 |
| Agrow Agronomic | 22 | Lehman Bros Cap Part | 22 |
| AssiDomini | 20 | Lockheed Martin | 22 |
| BA | 9 | Metallgesellschaft | 20 |
| BAA | 22 | Monsanto | 22 |
| BAT | 22 | National Power | 30 |
| Breda | 20 | Norbank | 19 |
| British Telecom | 1 | Petrobras | 22 |
| Butte Mining | 20 | Philip Holzmann | 20 |
| CSFB | 20 | Philips | 4 |
| Cable and Wireless | 20 | Philips | 20 |
| Carlson Wagonlit | 20 | Republ Industries | 22 |
| Clyde Petroleum | 20 | Rolls-Royce | 4 |
| Coca-Cola | 20 | SE-Banken | 19 |
| Credito Italiano | 20 | Sema Group | 9 |
| Daimler-Benz A'space | 1 | Sharp | 4 |
| Danone | 20 | Siemens | 19 |
| Dassault | 1 | Siemens Plessey | 9 |
| Deutsche Post | 18 | Solidere | 20 |
| Dixons | 20 | Souza Cruz | 22 |
| EM Warburg Pincus | 20 | Sul America Seguros | 19 |
| Elan | 22 | Thomson | 4 |
| Empress La Moderna | 22 | Thomson-CSF | 1 |
| Esprit Telecom | 20 | Tomkins | 20 |
| Finnmeccanica | 20 | Toyota | 1 |
| Générale des Eaux | 19 | Tubacex | 20 |
| Gulf Canada | 20 | UBS | 10 |
| Hancock Venture | 20 | UPS | 18 |
| Havas | 19 | VW Financial Service | 30 |
| Hazelwood Power | 30 | Veba | 20, 1 |

Market Statistics

| | | | |
|--------------------------|-------|------------------------------|-------|
| Annual reports service | 36-37 | FTSE Actuaries share indices | 36 |
| Benchmark Govt bonds | 30 | Foreign exchange | 31 |
| Bond futures and options | 30 | Gifts prices | 30 |
| Commodity prices | 32 | Managed funds service | 36-37 |
| Commodity prices | 32 | Money markets | 33-35 |
| Dividends announced, UK | 31 | New list bond issues | 30 |
| EMS currency rates | 30 | Recent issues, UK | 47 |
| Fixed interest indices | 30 | Short-term interest rates | 30 |
| FTSE-A World Index | 42 | US interest rates | 30 |
| FT Gold Mines Index | 30 | World Stock Markets | 38 |
| FT/ASMA int bond svcs | 30 | | |

Chief price changes yesterday

| FRANKFURT (DM) | PARIS (FF) | NEW YORK (\$) | TOKYO (¥) |
|----------------|---------------|---------------|--------------|
| Alcatel | 1190 + 40 | IBM | 833 + 11 |
| Deutsche Bank | 84.2 + 0.2 | Boehringer | 1049 + 49 |
| SGL Carbon | 225.3 + 9 | Labinal | 1374 + 86 |
| Thyssen | 318.5 + 0.7 | Pharm | 332 + 11 |
| Wolfsberg | 514 + 10.5 | Boehringer | 87 - 24 |
| Daimler-Benz | 1022.5 - 16.5 | Suez | 255.3 - 7.2 |
| Alcatel | 391 + 21 | Chuo T & S | 790 + 20 |
| Deutsche Bank | 354 + 21 | Down F & M | 829 + 27 |
| SGL Carbon | 429 + 51 | Pharm | 332 + 11 |
| Thyssen | 215 + 10 | Haw Motors | 692 - 38 |
| Wolfsberg | 124 - 10 | Labinal | 445 - 32 |
| Wolfsberg | 314 - 28 | Nippon Cement | 377 - 20 |
| Alcatel | 944 + 15 | Chang Hong | 74.5 + 2.25 |
| Deutsche Bank | 1189 + 139 | Shi Pao | 38.4 + 1.2 |
| SGL Carbon | 345 + 374 | Shi Pao | 32.8 + 1.4 |
| Thyssen | 479 - 38 | New WIM Dev | 48.0 + 1.2 |
| Wolfsberg | 3279 - 30 | SHK Pkt | 90.5 + 3.0 |
| Wolfsberg | 548 - 614 | Shi Pao | 33.9 - 1.0 |
| Alcatel | 5.5 + 0.8 | Shi Pao | 11.0 + 1.0 |
| Deutsche Bank | 13.75 + 2.55 | Shi Pao | 42.75 + 3.75 |
| SGL Carbon | 21.5 + 1.65 | Shi Pao | 31.25 + 2.75 |
| Thyssen | 8.5 - 0.9 | Shi Pao | 72.0 - 8.0 |
| Wolfsberg | 23.25 - 0.55 | Shi Pao | 68.5 - 7.5 |
| Wolfsberg | 23.25 - 0.55 | Shi Pao | 72.0 - 7.0 |

New York and Toronto prices at 12.30pm

US insurer aims to expand low-cost healthcare via link with local company

Aetna in \$300m Brazilian venture

By John Authers in New York
and Jonathan Wheatley
in São Paulo

Aetna, the US life and health insurer, yesterday agreed to invest \$300m in a joint venture with Sul America Seguros, Brazil's largest insurance company, in an attempt to expand low-cost healthcare in Brazil. A further \$80m may follow depending on performance. The move follows Sunday's announcement that a group of North American financiers, including the merchant banking arms of Chase Manhattan Bank and the National Bank of Canada, was investing \$350m

in a joint venture with Infim, the largest pension fund manager in Chile, to build a Latin American financial services conglomerate. The two investments confirm the US financial sector's confidence that it can obtain superior growth in Latin America than by investing in the domestic market. Aetna's venture, to be called Sul America Aetna, intends to expand aggressively into the developing Brazilian market for defined contribution pension products - where savers invest a regular sum each month without a guaranteed final payout - and healthcare.

It will use products and marketing techniques developed by Aetna in the US healthcare industry, and sell them through the Sul America distribution system, which currently includes more than 14,000 brokers and has about 8.5m customers. Sul America claims an 18 per cent share of the overall Brazilian insurance market, with premium income last year of about \$2.6bn, including premiums from its life and health businesses of \$1.4bn. These businesses will be contributed to the new company. Mr Frederick Copeland, president of Aetna International,

said the company would "gradually" introduce US managed healthcare practices, although he added that Aetna's US healthcare business was not immediately transferable. Aetna already has pensions businesses in Peru and Chile, and it is establishing one in Mexico. Mr Frederick Copeland, president of Aetna International, said: "In Brazil there are many investment products which we think over time we can bring to the marketplace. Typically in a high inflation market those products don't do very well. But we are hoping the economy will be more stable in the future, and there is

the beginning of a defined contribution pensions industry starting in Brazil." Mr Rony Lyrio, president of Sul America, said he hoped the joint venture would exploit "very substantial" growth in private pensions, although this would depend on the Brazilian government's success in reforming the pensions system. Reform has been stalled in Congress for almost two years but progress is expected soon following President Fernando Henrique Cardoso's political victory last week in securing the right to run for a second term in 1998.

Siemens to sell its cable TV network

By Frederick Stüdemann
in Frankfurt

Siemens, the German industrial group, is to sell its cable television network business as part of a refocusing strategy. Mr Heinrich von Pierer, chief executive, said yesterday that the network, which delivers television to some 350,000 households across Germany, was not part of Siemens' core activities.

Mr von Pierer, speaking at the World Economic Forum in Davos, Switzerland, said Siemens was talking to several potential buyers. Among these is Vebacom, the telecom subsidiary of Veba, the utility company, which is expanding its cable television network activities.

The cable television network is the latest business to be deemed non-essential by Siemens, which is conducting a comprehensive review of its activities with a view to cutting costs, improving innovation and expanding abroad. At the end of last year the company closed its consumer electronics business which made televisions, video machines and stereo systems. Siemens is said to be hoping to raise over DM400m (\$1.8bn) from disposals. The money will go towards expansion in core businesses, including power, telecommunications and transport equipment.

Mr von Pierer reiterated previous statements that Siemens would continue to expand outside Germany, particularly in Asia. Siemens said the decision to sell the network was prompted by the liberalisation of the German telecoms market, due in 1998, in which cable is set to play a key role. Siemens has decided to concentrate on supplying hard- and software. Vebacom confirmed it was in talks with Siemens but said a concrete offer had not been made. The Siemens network is estimated to be worth as much as DM400m, although the company would not comment on this figure.

Vebacom's cable network reaches 1.9m households, of which 1.6m are registered customers. It is the second largest cable television operator in Germany after Deutsche Telekom, the largely state-owned telecoms company, which has 5m direct customers. It has a further 11m customers hooked up indirectly as part of larger groups.

Germany's cable network, which reaches more than half the country's 37m households, is seen as increasingly attractive with the advent of multi-media services which combine voice, data and pictures. It is also set to play a key role in the development of digital pay television.

Vebacom has focused on cable in its bid to become the biggest telecoms and electronic media distributor after Deutsche Telekom. Last month it paid DM480m to acquire Urbana Systemtechnik, Germany's third largest cable television network, which brought with it more than 600,000 subscribers.

"We are interested in the Siemens' network for two reasons. One, we get access to customers. Two, we can expand the network to offer telephone and multi-media services," the company said.

\$81m weapons order cancelled, Page 9



Door remains open: Hans Dahlborg, chief executive of Nordbanken, which says it is still looking for potential partners

Swedish bank merger talks fail

By Hugh Carnegie
in Stockholm

An attempt to build the Nordic region's biggest bank collapsed yesterday when Sweden's Skandinaviska Enskilda Banken broke off merger talks with its state-controlled rival Nordbanken.

Shares in the two banks slumped on the news which ended weeks of speculation that a marriage between the two was set to be the next step in a large-scale restructuring of the Swedish financial sector. Neither side commented publicly on the cause of the breakdown of the talks, which had been pursued intensively since the beginning of the year. It appeared SE-Banken,

the financial flagship of the Wallenberg family industrial empire, had walked away because of lack of agreement on operational structures and the division of power between the two sides.

This was despite the clear support for a merger by investor, the main Wallenberg investment vehicle which holds a chunk of the family's holding in SE-Banken. It expressed regret at the failure of the talks, which would have created a bank with assets of SKr900bn (\$223bn) and a market worth of SKr77bn.

Mr Claes Dahlbäck, chief executive of investor, said: "It is sad because a merger would have been very beneficial for both banks and for Sweden as

a whole. The creation of such a European-class bank would have meant a lot for the Stockholm financial community."

SE-Banken's most-traded A shares fell SKr4.50 on the news to close at SKr67.50, while Nordbanken shares dipped SKr7 to close at SKr227.

Anticipation of an SE-Banken-Nordbanken tie-up rose after Svenska Handelsbanken won a bidding contest to take over Stadshypotek, the country's biggest mortgage lender, in December. That was seen as an opening play in a series of likely mergers in a market offering little organic growth and facing increased foreign competition. Yesterday's breakdown raised critical questions over

the future of both Nordbanken and SE-Banken. The Social Democratic government is committed to selling off all its near-60 per cent stake in Nordbanken - but has yet to decide how and when it will do so. It appeared investor was standing ready to buy a significant stake to underpin the proposed merger. But the government will now have to decide whether to auction its stake or stage a public offering.

Nordbanken, whose chief executive is Mr Hans Dahlbäck, said its door remained open to potential partners. SE-Banken said it was not in a hurry to find a new partner - despite public statements that it believed restructuring was necessary eventually.

Générale des Eaux set to raise stake in Havas

Move is part of complex shake-up in France's audio-visual sector

By Andrew Jack in Paris

Générale des Eaux, the French utilities and construction group, is poised to become the largest single shareholder in Havas, the communications group, as part of a complex shake-up of the country's audio-visual sector. Under plans to be discussed by the groups' boards on Thursday, Générale des Eaux is proposing to increase its stake in Havas from 2.5 per cent to up to 30 per cent.

This would come partly through the acquisition of a 10 per cent holding owned by Alcatel-Alsthom, the communications and defence group.

The rest of the group's increased stake would come through additional shares given to it in payment for ceding its 19 per cent stake in Canal Plus, the pay-TV group, to Havas, which already owns 21 per cent.

Générale des Eaux and Havas yesterday issued short statements confirming that they were in discussions concerning "their participations in the audio-visual sector and essentially in Canal Plus".

They stressed that any valuations on the operations would be based on stock market prices before February 1, which at the closing stock market price for Havas on Friday would value the cost of Générale des Eaux's purchase of Alcatel's 10 per cent stake at nearly FF73bn (\$540bn).

The operation would reassert Havas's role as the undisputed dominant shareholder in Canal Plus, a position which was to be diluted to 17 per cent as a result of the merger announced last year between the television company and the competing NetHold group. The restructuring would provide a way for Alcatel to shed part of its existing 21 per cent stake in Havas, acquired in October 1995 in payment for ceding control of its publishing arm, which it pledged only to sell within two years by mutual consent, but which it has made no secret of its desire to sell.

The transaction would be expected to trigger a small capital gain for Alcatel, as well as free up cash to help it in its bid for the defence activities of the state-owned Thomson group which is up for privatisation. The deal could also bring about a wider shake-up in the audio-visual sector, including the balance of power over Compagnie Luxembourgeoise de Télédiffusion (CLT), controlled by Mr Albert Frère of Belgium. Générale des Eaux and Havas hold indirect stakes in CLT.

On a day when the CAC 40 index of leading French stocks closed down 0.32 per cent, Havas' shares rose 4.6 per cent and Alcatel's fell by 1.1 per cent after a strong rally in recent days.

Indian bank plans shake-up to broaden its role

By Tony Tassell in Bombay

Industrial Development Bank of India, the country's largest development finance institution, has outlined a wide-ranging restructuring designed to position it as an integrated wholesale bank.

The plan marks a further step in the transition of India's financial institutions from state-run organisations into more commercial companies.

Mr S.H. Khan, IDBI chairman, said that the reorganisation, which is based on the recommendations by consultants Booz Allen and Hamilton, would see the institution expand from its core business of project financing into fee-based services. There would also be a decentralisation of operations, greater customer focus and improved information technology systems.

No timetable was given for the restructuring of IDBI, the seventh largest development finance institution in the world by profits and the eleventh largest by assets, but Mr Khan said a task force would be set up to carry it out as soon as possible.

Mr Girish Kumar, analyst with Merrill Lynch in Singapore, said that the reshaping would be critical for IDBI amid increasingly competitive conditions for fund-raising, a narrowing of spreads from about 4.5 per cent to about 3.5 per cent, and the continued expansion by India's commercial banks into project financing.

Under the restructuring, the group will develop fee-based services such as consultancy on mergers and acquisitions, risk management products, debt syndication and foreign exchange management. The institution would also start offering working capital and short-term finance to companies.

Mr Khan said that interest income currently accounted for 90 per cent of IDBI's total income, but IDBI planned to increase the percentage of fee-based income to about 30 per cent of total income.

He said that under the decentralisation IDBI's head office would focus on large corporate borrowers with mid-size customers allocated to the institution's branches.

This announcement appears as a matter of record only

December 1996



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| Credit Suisse First Boston | | The Industrial Bank of Japan, Limited | |
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| Co-ordinating Banks | | | |
| Credit Suisse First Boston | | The Industrial Bank of Japan, Limited | |

COMPANIES AND FINANCE: EUROPE

Metallgesellschaft expects further rise

By Andrew Fisher
in Frankfurt

Metallgesellschaft, the German industrial and trading company, expects a further rise in profits in the financial year to September 30 after the 70 per cent rise in its pre-tax result to DM232m (\$178m) achieved in 1996-96. Mr Kajo Neukirchen, chairman, said yesterday.

He also said the company, which nearly collapsed three years ago after heavy losses on US oil futures trading, intended to seek further acquisitions in its main sectors and was aiming for a return on equity of 14 per cent in the medium term after 9 per cent last year.

The company's shares rose 3 per cent yesterday, or by DM1, to DM33.80. In the last six months, they have gained about 35 per cent.

The group was now "logically structured and financially sound," Mr Neukirchen said. "Hence it is strong enough to make sizeable acquisitions." Metallgesellschaft last month made

an offer to buy effective control of Agiv, the loss-making industrial company, from BHF-Bank.

Mr Neukirchen declined to give more details about the agreed purchase of the 49.99 per cent stake in Agiv. But he said the deal would strengthen Metallgesellschaft's plant engineering and contracting division, speed up the development of the building technology business and add new activities in instrumentation and control technology.

Metallgesellschaft's first-quarter profits this year rose by 19 per cent to DM26.7m before tax, but Mr Neukirchen said it was not possible to extrapolate the full year's result because profits from industrial plant contracts often came later in the year. First-quarter sales totalled DM3.8bn, a 12 per cent increase.

Trading activities are expected to show a marked improvement, while plant engineering and contracting are likely to repeat last year's favourable performance, he said.

Nobel, the chemicals division, should achieve a further rise in profitability.

Elaborating on the 1996-96 result, partially announced in November, Mr Neukirchen said group net income was 80 per cent higher at DM230m.

On the industrial plant side, the Lurgi subsidiary raised pre-tax profits from DM113m to DM127m and Lentjes improved from DM28m to DM48m.

Dynamit Nobel lifted its pre-tax result from DM141m to DM191m. Profits of the building technology division, still in the start-up phase, rose to DM42m from DM35m, while financial services made a pre-tax profit of DM25.4m down from DM28.3m - the Metallbank subsidiary has since been sold to SchmidtBank.

Trading activities produced a lower pre-tax figure of DM35m against DM55m, partly as a result of economic weakness and turbulence on the London copper market.



Kajo Neukirchen: group intended to seek further acquisitions

C&W pull-out injects realism

Senior executives from a number of companies planning to attack the soon-to-be-liberalised German telecommunications market met recently to compare strategies. Each put forward a view of the share of the DM90bn (\$68.8bn) their organisation expected to win. One executive at the meeting noted cynically: "Their combined estimates exceeded Deutsche Telekom's entire 1996 revenues [about DM69bn]."

Unrealistic ambitions of this sort are common among new entrants to an unfamiliar market. The expected withdrawal of Cable and Wireless, of the UK, from a planned three-way tie-up with the German utilities Veba and RWE, however, may indicate that a new realism is taking hold.

There have been a rash of mergers and strategic alliances over the past few years in anticipation of the opening of the European market to full competition in 1998; the C&W move may prove a catalyst for other companies to reassess their European strategies.

There are three main reasons for C&W's decision to abandon the German alliance.

First, the group has developed a new global strategy, with Cable and Wireless Communications, its recently created UK subsidiary, at its centre. C&W combines Mercury Communications, the C&W subsid-

ary that is British Telecommunications' chief competitor in the UK, with three UK-based cable operators: Nynex CableComs, Videotron and Bell CableMedia.

This new strategy follows the appointment as chief executive last year of Mr Richard Brown, the US manager who is already building a reputation in the UK for innovative decision-taking.

One analyst said yesterday: "Like most American chief executives, Richard Brown likes to shake things up and build shareholder value."

"C&W may have interests in dozens of different territories, but he will concentrate on the five he really cares about - like the US and Hong Kong - and attempt to build C&W into a substantial company."

Most of C&W's profits come from its majority stake in Hongkong Telecom; one of Mr Brown's priorities is to protect the interests of C&W shareholders during the change from UK to Chinese ownership this year.

There are rumours, which have not been denied, that Mr Brown would like to form an alliance with Global One, the global supercarrier owned by Deutsche Telekom, France Télécom, and Sprint of the US. It would give the group global reach, making a separate European strategy superfluous.

The second reason for

C&W's move is that the cost of building the necessary infrastructure to compete with Deutsche Telekom was proving prohibitive - a "black hole for funds" as one analyst put it. Three years ago, new competitors in Germany believed they would break even on their telecoms activities by 2001. Now they have scaled that back to 2003.

Third, there is a fresh realism about how difficult it will be to win market share from Deutsche Telekom. When the original deal was initiated between C&W and Veba, Lord Young of Graffham, at that time C&W chairman, said the partnership aimed for 10 per cent of the German market by 2003.

It is becoming clear that such ambitions are wholly unrealistic without huge investment in infrastructure.

Schema, a London consultancy which advises new telecoms operators on strategy, points out that the share of a liberalising market for which all the new players can reasonably compete is about 15 per cent. That means the Veba/RWE/C&W group would have been fighting for a share of a DM12bn market rather than a DM80bn market.

The rules of the game, furthermore, remain uncertain. It has become clear in recent months that the liberalisation of the German telecoms market on January 1 next

year will not be the cue for a rapid transformation.

Deutsche Telekom's would-be rivals are at an early stage of development - even Vebacom is yet to complete its network.

More important, there are significant regulatory questions to be resolved and basic issues, such as the fees Deutsche Telekom will be able to charge rivals for connection to its network, have not been settled and are likely to provoke rows.

The federal post and telecommunications ministry has not decided the shape of a proposed new regulatory authority. Many would-be entrants into the market fear the creation of a politically-driven agency that will favour the interests of Deutsche Telekom.

The slow pace set by the ministry is seen as a bad omen by many would-be investors.

Veba and RWE, however, were insisting last night that their joint venture would go ahead, with or without C&W. They are now talking to US operators.

Veba said: "What is important is that the joint venture is not affected." As cash-rich German utilities, some argue they would be better placed without C&W for the long haul likely to be necessary for success.

Alan Cane,
Nicholas Denton
and Ralph Atkins

Report attacks French banks

By Andrew Jack in Paris

France's financial institutions provide inadequate information on their exposure to risks and have done little to improve the quality of their reporting over the past 12 months, an influential report concluded yesterday.

Fewer than half which have outside shareholders provide details of their commitment to meet the growing calls for improved corporate governance, and most fall far short of the example set by their Anglo-Saxon counterparts.

The analysis is based on the latest annual reports of 50 banks, mutuals, savings and other financial institutions in France, and was conducted by experts from the professional firms Cautin Angleys Saint-Pierre, Deloitte Touche Tohmatsu, Ernst & Young, and Mazars & Guerard.

It says that details of credit risks remain "insufficient and inconsistent", and that few provide enough information on such topics as doubtful loans.

The criticism is particularly significant in view of the growing debate in France over the low interest charged by institutions on some loans - even below the costs of extending the loan - which triggered a warning

letter from Mr Jean-Claude Trichet, the governor of the Bank of France, in 1995.

Information on the level of property provisions - which on average stands at 60 per cent of total property loans in a reflection of the malaise of the domestic market - is also inadequate, and its definition varies between and even within banks, with the risk of damaging the credibility of the institutions, the report warns.

It says that just nine of the 19 institutions which have outside investors provide much information on their approach to corporate governance, in spite of the publication of a series of recommendations in 1995 from an influential committee chaired by Mr Marc Vialat, himself chairman of the bank Société Générale.

Those that do cite their policies make reference to the appointment of independent directors, publication of a code of practice for the board, and information on specialist committees.

It says that the institutions take on average 86 days after the end of their financial year to publish their accounts, with the longest - Crédit Foncier de France - coming after four months.

Les établissements de crédit 1996. CPC Editions. Meylan, Grenoble, France. FF400.

EUROPEAN NEWS DIGEST

Credito Italiano profits rise 30%

Credito Italiano, the privatised Italian bank, yesterday said net profits for 1996 rose by about 30 per cent to more than L250bn (\$155m). This performance came in spite of the continued high incidence of write-downs on loans and long-term investments. The bank also said its preliminary 1996 results showed a 20 per cent rise in gross operating earnings to about L1,000bn. These figures reflected both the increase in service commissions and cost containment that included 800 staff cuts. Direct customer cash deposits reached L50,000bn out of total cash deposits of about L200,000bn. Bank loans rose 8 per cent to L73,000bn, of which L41,000bn involved loans to industry. Net bad debts fell from L1,214bn to L1,182bn.

Paul Betts, Milan

Iberia back in black at Pta2.7bn

Iberia, the Spanish state-owned airline which is seeking an international commercial ally, showed a net profit of Pta2.7bn (\$19m) last year, its first positive result since 1989, according to provisional estimates from the company. The profit compared with a loss of Pta44,920bn the previous year. It followed European Commission authorisation in late 1995 for a Pta50bn injection of capital from the Spanish government. The aid plan was pegged to divestment of Iberia holdings in Latin American airlines. Under the deal, a further Pta20bn may be pumped into Iberia this year.

Operating profits improved from Pta25bn to Pta34bn, after emerging from loss in 1994. Operating turnover was up from Pta450.8bn to about Pta477bn, it said. The group showed provisional net earnings of Pta3.4bn on sales up 5 per cent at Pta566.6bn. That covers Spanish domestic and charter subsidiaries but not its remaining Latin American interests, which include 45 per cent in Viasa, the troubled Venezuelan carrier.

David White, Madrid

Madrid probes 'manipulation'

The Comisión Nacional del Mercado de Valores, Spain's stock market regulator, said on Friday it had investigated alleged share manipulation by the Spanish units of Banque Paribas, of France, and Crédit Suisse Financier, of the UK, and had started proceedings which could lead to stiff fines for both institutions.

The regulator's action follows an inquiry into the sudden collapse on December 27 1995 of the Ibox-30 index, which represents Spain's most traded stocks. The two institutions were investigated because of their alleged involvement in a swap operation with a fund managed by a leading Spanish bank that was backed by an Ibox index futures contract. The two institutions face maximum fines equal to 5 per cent of the customer funds that they manage.

Tom Burns, Madrid

Danone buys into Strauss

Danone, the French foods group, has bought 20 per cent of the dairy operations of Strauss, of Israel. Industry sources said the stake cost around \$55m. Strauss declined to comment. Mr Frank Riboud, Danone chairman, said: "We are not very strong in this part of the world and we really hope Israel will help change that." He said the agreement was the prelude to a deeper bilateral co-operation. The deal excludes Strauss's ice-cream and cheese companies, which are 50 per cent owned by Unilever, the Anglo-Dutch food group.

APX Naus, Tel Aviv

Philipp Holzmann breaks even

Philipp Holzmann, Germany's largest construction company, broke even in 1996 after a net loss of DM443m a year earlier. The latest figure includes DM1bn (\$61m) in costs from write-downs on investments, valuation adjustments, operating losses and provisions. Also included are the proceeds from the sale of about 4,000 apartments, mostly in Bonn and Berlin.

With the sale of these, estimated to be worth about DM500m, Holzmann will withdraw completely from its business as a landlord.

Sarah Althaus, Frankfurt

Philips appoints M&A man

Philips, Europe's biggest consumer electronics group, is to strengthen the team reshaping its activities worldwide by appointing a merchant banker from Credit Suisse First Boston to a high-level financial post. Mr Ivo Lurink, head of CSFB's Prague operations, will join in March as senior director and head of mergers and acquisitions.

Vincent Boland, Prague and Gordon Cramb, Amsterdam

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February 1997



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WOOLWICH - Building Society -

£200,000,000
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JPMorgan

EUROFIMA

European Company for the Financing of Railroad Rolling Stock
ITL300,000,000,000
Floating Rate Note
due 1998
Notice is hereby given that for the interest period 4 February 1997 to 5 May 1997 the notes will carry an interest rate of 7.11719% per annum. Interest payable on 5 May 1997 will amount to ITL88,965 per ITL5,000,000 and ITL889,649 per ITL50,000,000 note.
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JPMorgan

Notice of Early Redemption



Tokai Bank Nederland N.V.

U.S.\$40,000,000

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NOTICE IS HEREBY GIVEN that the Issuer shall redeem the Notes in accordance with Condition 9(b) of the Terms and Conditions of the Notes at their principal amount on the next interest payment date, 11th March 1997, when interest on the Notes will cease to accrue. Repayment of principal will be made upon presentation and surrender of the Notes, with all unsecured coupons attached, at the offices of any of the Paying Agents mentioned therein.

Accrued interest due 11th March 1997, will be paid in the normal manner on or after that date against presentation of Coupon No. 6.

The Tokai Bank, Limited,
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4th February 1997.

The Financial Times plans to publish a Survey on

Cayman Islands

on Tuesday, March 18

Political stability in a region often overtaken by disorder has allowed the Cayman Islands to establish a reputation as a leading holiday resort and one of the world's leading offshore financial services centres. Although expansion of tourism has slowed, this has not reduced the British colony's ability to offer natives and a significant number of non-Caymanian residents a standard of living and a quality of life much higher than that of other parts of the region. The survey will look at the island's economy, politics, financial services, tourism and more.

For more information on advertising opportunities in this survey, please contact:

Michael Geach in New York: Tel: (212) 688-6900 Fax: (212) 688-8229 or

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COMPANIES AND FINANCE: INTERNATIONAL

INTERNATIONAL NEWS DIGEST

AssiDomän in Slovak move

AssiDomän, the Swedish forestry company, has reached agreement with shareholders to buy a majority of shares in JCP Sturovo, a paper and paperboard company in the Slovak Republic. AssiDomän said it had also made a public offer for the remaining outstanding shares, with a view to buying at least 90 per cent of the company.

It said JCP Sturovo, located on the Danube near the Hungarian border, was a profitable company with strong market positions and an annual turnover of about \$21.8m. JCP Sturovo, with 2,500 staff, makes SC-fluting (the middle layer in corrugated cardboard), corrugated board, carton board and asphalt-impregnated paper products. The fluting mill has an annual capacity of 180,000 tonnes, with 76 per cent of output exported to the Czech Republic, Germany, Italy, Spain and Turkey among others.

"JCP Sturovo gives AssiDomän very interesting opportunities for development on the rapidly growing corrugated packaging markets in central and eastern Europe," Mr Lennart Ahlgren, AssiDomän chief executive, said yesterday. "The company also fits in very well with our other investments in the region."

Reuter, Stockholm

Alitalia, Air France in accord

Alitalia, the Italian flag-carrier, said yesterday it had reached a preliminary agreement with Air France on code sharing and space reservations. The deal is expected to take effect on April 1. The airlines will share codes and bookings mainly on flights to and from Venice, Bologna, Turin and Paris.

The companies would also put on extra flights between French and Italian regional cities, Alitalia said. Under the agreement the airlines will maintain "independent commercial policies and operating costs". The airlines also plan to "explore and optimise all possible synergies between the companies".

AFP News, Rome

Carlson plans card link-ups

Carlson Wagonlit Travel, the joint venture business travel network owned by Carlson of the US and Accor of France, plans to announce partnerships with a series of credit card companies across Europe in the next few months.

The group will form alliances - principally with MasterCard - to offer its clients branded 30-day charge cards as part of its strategy to expand business. The details emerged after Accor and Carlson signed on Friday the formal 50-50 partnership, two years ahead of their original schedule. The companies said they planned to increase activity by 10 per cent a year, double profits within three years and accelerate international expansion, particularly in Asia. Carlson Wagonlit Travel said sales for 1997 would be near \$9bn. *Andrew Jack, Paris*

Solidere upbeat after 81% rise

Solidere, the company entrusted with rebuilding Beirut's war-torn commercial district, yesterday reported net profits up 81 per cent last year, from \$32.5m in 1995 to \$59.5m. Unaudited figures show Solidere's revenues up 70 per cent at \$74.2m, after \$43.5m the previous year.

Solidere said total assets rose to \$1.77bn in 1996 from \$1.7bn in 1995. Total shareholders' equity rose from \$1.67bn in 1995 to \$1.72bn last year. Solidere's directors said the 1996 financial results "demonstrate that the company has achieved its business plan objectives for the year and in fact exceeded its revenue projections as a result of strong land sales in the BCD [Beirut Central District]".

AP-DJ, Beirut

Knorr-Bremse ahead 13%

Knorr-Bremse, the Germany company which is the world's largest maker of railway brakes, said net income for 1996 was DM42m (\$25.6m), a 13 per cent increase on the DM37m recorded for 1995. Sales were flat at DM1.46bn, from DM1.45bn in 1995. Mr Heinz Hermann Thiele, chairman and owner of the Munich-based company, said he hoped sales would increase by about 6 per cent in 1997, with a comparable rise in profits, although trading conditions remained "tough". As well as selling brake systems to the world's main makers of railway rolling stock, Knorr has a joint venture with AlliedSignal, the US automotive parts maker which is the world's second biggest supplier of brake systems for trucks. *Peter Marsh*

Italy rail shake-up complete

The industrial rationalisation of production in Italy's rail and mass transit system has been completed with Breda, the rolling stock manufacturer, being absorbed into the state-controlled Finmeccanica holding for L38.2bn (\$23.7m). Breda was part of Efim, the state industrial holding which collapsed in 1992.

This was one of the last operations relating to the winding-up of Efim, which has cost the taxpayer more than L15,000bn. In addition to the purchase price, Finmeccanica will assume L180bn of Breda-related debt. From the outset of Efim's collapse, Finmeccanica was anxious to obtain Breda. Its activities offered the missing link in an otherwise integrated presence in the mass transit and rail sector since Finmeccanica - through its Ansaldo subsidiary - already had a big presence in the metropolitan system, with a strong international position in signalling and traffic control systems. Breda this year is expected to have a turnover of L800bn, with the prospect of ending a run of losses. *Robert Graham, Rome*

Coca-Cola in S Africa push

Coca-Cola and its seven South African bottling partners will invest more than R1bn (\$219m) over the next five years to expand marketing and distribution. Coca-Cola said it hoped by 2003 to double its sales in the South African soft drink market, worth R8.4bn rand a year.

Coca-Cola itself is to contribute a "significant" portion of the new investment, but refused to disclose the amount. It said the investment would be used primarily for purchasing coolers and other equipment and support systems that will significantly enhance drink's availability, particularly in the country's emerging markets. Coca-Cola has annual sales of R4.5bn in South Africa, with Spaza roadside shops in black townships accounting for more than R1bn of the turnover. *AFP News, Johannesburg*

MONTHLY AVERAGES OF STOCK INDICES

| | January | December | November | October |
|------------------------|-------------|----------|-------------|---------|
| FTSE Actuaries Indices | | | | |
| FTSE 100 | 4166.5 | 4088.9 | 3989.5 | 4021.0 |
| FTSE 250 | 4556.5 | 4414.1 | 4408.0 | 4438.4 |
| FTSE 350 | 2088.9 | 2005.3 | 1977.7 | 2000.5 |
| FTSE Non-Financial | 2104.75 | 2056.24 | 2040.44 | 2086.13 |
| FTSE Financial Group | 3674.44 | 3418.82 | 3500.88 | 3282.82 |
| FTSE All-Share | 2041.99 | 1978.41 | 1951.16 | 1973.54 |
| FTSE Eurotrack 100 | 1992.82 | 1874.42 | 1811.02 | 1784.30 |
| FTSE Eurotrack 200 | 2031.40 | 1924.31 | 1889.97 | 1816.00 |
| FTSE/SEPA Index | 224.78 | 228.47 | 224.50 | 217.59 |
| FTSE Indices | | | | |
| FT Govt Securities | 94.34 | 94.45 | 94.16 | 94.38 |
| FT Fixed Interest | 116.71 | 116.73 | 116.01 | 115.22 |
| FT 30 | 2815.9 | 2776.8 | 2790.1 | 2844.2 |
| FT Gold Mines | 1720.94 | 1757.78 | 1908.75 | 1987.81 |
| SEAG Bargains (5.00pm) | 43.611 | 51.459 | 37.677 | 38.864 |
| Highest close Jan | | | | |
| FTSE 100 | 4275.8 31st | | 4056.6 10th | |
| FTSE 250 | 4595.4 31st | | 4469.4 2nd | |
| FTSE 350 | 2115.5 31st | | 2017.9 2nd | |
| FTSE All-Share | 2087.1 31st | | 1888.78 2nd | |
| FT 30 | 2847.1 31st | | 2781.1 2nd | |

Stainless tube maker looks to bright future

Tubacex has recovered from its crisis to become a leading performer on Spain's stock market

Barely three years after emerging from receivership, a steel tube manufacturer in the Basque country has become one of Spain's star stock market performers.

In the second half of last year, Tubacex showed the biggest rise on the Madrid market with a 38.7 per cent gain. In January last year, the shares traded at a low of Pta138. This month they reached double that level, frequently ranking among the most actively traded stocks.

"We were dead," says Mr Alvaro Videgain, the 45-year-old chairman, recalling the disastrous circumstances of five years ago, when everything went wrong for Tubacex - a market slump, low prices, an overvalued peseta and a misconceived attempt at diversification.

In 1992, Tubacex applied for suspension of payments to creditors, with debts of about Pta20bn (\$144m). Mr Videgain, previously commercial director, led its recovery, taking it out of receivership 16 months later. He cut costs, raised productivity, abandoned the high-volume business and carbon-steel tubes, and concentrated on high-value stainless steel products.

The market value of the company, based at Llodio, along the river valley south from Bilbao, now stands at about Pta35bn compared

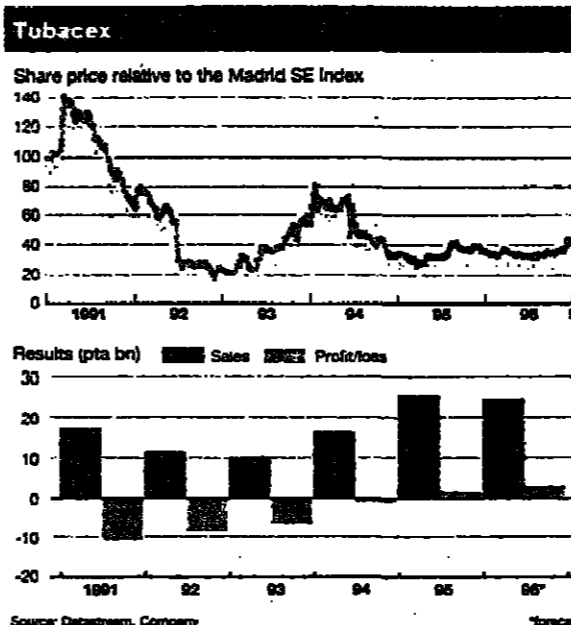
with Pta2bn at the time of receivership.

Mr Videgain says consolidated net profits for last year will be a record Pta3bn, an increase of about 85 per cent, on sales of Pta25bn. The company's sense of triumph makes up for reverses suffered in the course of the year. Prices were less favourable than the previous year, and overall sales were down. The European Commission decided that part of the company's financial arrangements with the Spanish authorities were illegal aid. Plans for an ambitious takeover were aborted at the last minute.

The Brussels verdict followed a three-year campaign led by Sterling Tubex, a UK subsidiary of Sweden's Sandvik engineering group, one of Tubacex's three European competitors in the restricted field of seamless stainless steel tubes.

The Commission upheld part of the complaint, arguing that a 9 per cent loan from Spain's wage guarantee fund was below market rates, and disallowing the rescheduling of Tubacex's social security debts.

But it rejected other charges, including an allegation that the Basque regional government paid an inflated price for land it bought from Tubacex further up the valley at Amurrio, next to the group's



Source: Datastream, Company

steel-making subsidiary.

Mr Videgain says he is puzzled by the outcome, but reckons the cost of meeting Brussels' requirements will not exceed Pta60m-Pta80m.

Tubacex suffered another setback with a plan to take a controlling stake in a Basque capital goods producer, Mecánica de la Peña.

The move surprised investors when it was announced in March, but Mr Videgain it "made a lot of sense". The companies shared the same clients in the oil and petrochemical industries. The takeover would almost

have doubled group sales, increasing capital by about 7 per cent. It was to be financed mostly through a Pta1.5bn convertible bond.

Tubacex had started issuing the bonds when it pulled out four months later. Under a gentlemen's agreement, it has declined to explain why. But it is believed to have been dissatisfied with its access to financial information. Mecánica de la Peña has since been taken under the wing of the Norwegian Kvaerner group.

Under its takeover plan, Tubacex envisaged dividend

payments, the first since 1990. But it decided instead to remunerate shareholders through reducing the nominal share value from Pta100 to Pta93. It plans to repeat this measure this year and next, to about Pta75-Pta80. The next dividend - only the third in Tubacex's history - is set to be paid in 1999.

Tubacex is meanwhile awaiting progress on plans by the Basque government which would eventually unite it with Spain's two other specialised tubes makers, both based in the same region - Productos Tubulares, now wholly state-owned, and the semi-state Tubos Reunidos. Tubacex is biding its time while discussions over the other two companies drag on.

It is an exception among Spanish stocks, not only as a heavy manufacturer in a market dominated by banks and utilities, but also as one of the few companies with no large shareholders - "100 per cent free-float," according to Mr Videgain.

The company attributes its ability to overcome its crisis to the loyalty of its shareholders, its creditors who agreed to swap most of their debt for convertible bonds, and its international clients. Some 80 per cent of group sales are exports, with exports accounting for 90 per cent of sales at the main tube-making company.

The rescue - a Pta13.2bn operation involving bonds and new shares - took place against a background of fierce local protests, in an area where political tensions run high. Next door to Tubacex's headquarters, a special-steel plant closed down in the same crisis.

Tubacex cut about 400 jobs in the reorganisation. It now employs about 840, including a Pennsylvania subsidiary, Salem Tube, acquired in 1995. Having moved into stainless steel tubes in 1988, it now claims about 12 per cent of the world market.

Mr Videgain does not expect a repeat of last year's profit surge, but hopes to maintain the earnings level this year. He says the company is "reflecting" on the acquisition of more production capacity abroad.

The company still has on its books some of the products of his predecessor's ill-starred diversification policy - including property interests in Houston and a collection of art works. About Pta1.5bn was spent on paintings, with the idea that they would be an anti-cyclical investment. Tubacex still owns about 80, including a Delacroix, two Corots, a Géricault and some modern Americans. Mr Videgain says he intends to sell them, but the need is now less urgent.

David White

In mergers and acquisitions

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COMPANIES AND FINANCE: THE AMERICAS

Petrobrás meets forecasts with 17% rise

By Geoff Dyer in São Paulo

Petrobrás, the state-owned oil and gas group which is the largest company in Brazil in terms of sales, increased net profits in 1996 by 17 per cent, from R\$570m to R\$664m (\$635m).

The group, which is set to lose its monopoly in the domestic oil industry, said turnover in 1996 had advanced 27 per cent to R\$33.8bn, against R\$26.5bn the previous year.

Analysts said the profit figures were in line with expectations, but were surprised at a R\$2.03bn

increase in the group's surplus with the National Fuel Department (DNC), which could have a negative impact on cash flow.

The account with the DNC, which is now R\$7.7bn in credit, reflects the difference between costs incurred by Petrobrás in producing oil derivatives and the revenues received at prices set by the DNC. The petrol account stood at R\$3.46bn at the end of December and the alcohol account at R\$4.24bn.

The Brazilian Congress is currently examining a bill to deregulate the oil industry, after Congress

voted last year to end Petrobrás' monopoly. Under the terms of the bill, imports of petrol will be liberalised after three years and prices will be freed.

Petrobrás is likely to have free access to reserves already discovered and will have greater freedom to enter into joint ventures with foreign partners on specific projects.

The government has consistently denied the claims of some deputies that the deregulation amounts to a back-door privatisation. Mr Ral-

mondo Brito, energy minister, said last week that Petrobrás' principal activities would not be sold as a result of deregulation.

Petrobrás said it invested a total of R\$3.1bn last year, more than half of which went on exploration and production. Petrol production increased 13 per cent, largely thanks to activities in the Campos Basin oil field.

The group plans to spend \$22bn over the next five years in order to lift its domestic oil output from the current level of about 780,000 barrels a day to 1.47m barrels a day

by the end of the decade.

Of the group's total profits, R\$214m came from Petrobrás' own activities and R\$450m from its subsidiaries, which include its distribution network, overseas operations and petrochemicals businesses.

Net assets were R\$20bn at the end of December, while the return on assets in 1996 was 3.4 per cent.

The board is recommending dividend payments of R\$8 per 1,000 preference shares, and R\$1.41 per 1,000 ordinary shares. Earnings per 1,000 shares were R\$6.12.

AMERICAS NEW DIGEST

Souza Cruz posts 3% fall for year

Souza Cruz, the Brazilian arm of BAT, the UK tobacco and financial services company, yesterday announced a 3 per cent drop in net profits in 1996 despite a slight rise in sales. The group recorded net profits of R\$203.8m (US\$185m), against R\$209.7m, after incurring a loss of R\$41m on the sale in May of a 28 per cent stake in Aracruz Celulose, one of Brazil's largest cellulose companies, to Anglo American of South Africa for US\$250m.

The sale formed part of a programme of disposals of non-core assets which began in 1992. Operating profits at Souza Cruz, which dominates the Brazilian cigarette market, increased 52 per cent to R\$238.9m (R\$156.7m).

Total sales in 1996 were slightly higher at R\$6.23bn (R\$6.14bn), despite a 1 per cent drop in volume of cigarettes sold in Brazil from 96.67bn to 97.8bn units. The group said this was less than the decline in the Brazilian market as a whole, and that its market share had risen from 82.6 per cent to 83.3 per cent.

The group's exports, largely to western Europe and the rest of Latin America, made up for this shortfall, rising 9 per cent to 20.3bn units. Souza Cruz said that investment reached US\$147m last year, primarily on a new tobacco processing plant in Santa Cruz do Sul, in Rio Grande do Sul state. Earnings per share were R\$0.77.

Geoff Dyer, São Paulo

US carmakers keep a wary eye on Republic

The group's frenzied buying spree has thrown down a challenge that Detroit cannot ignore

Wayne Huizenga, one of the best-known entrepreneurs in the US, yesterday stepped a frenzied start to 1997 with his 12th acquisition of the year, most of which have come in the car business.

That blistering rate of growth has forced Detroit in recent weeks to sit up and take note, leading to renewed attention to the fragmented and expensive sales network which serves the world's biggest automotive market.

Yesterday's \$55m acquisition of a private car dealer in Florida takes to six the number of dealers that Mr Huizenga's Republic Industries has bought so far this year, for a total of about \$400m in Republic stock.

Republic also agreed last month to pay \$800m for National Car Rental and assume \$1.7bn of the company's debt, just months after agreeing to buy Alamo, another car rental company.

January also brought small acquisitions of waste management companies and home security monitoring operations - businesses which Wall Street expects will contribute \$950m and \$150m, respectively, to

Republic's revenues this year.

Add in the sale of \$550m of new equity and the completion of the \$550m purchase of AutoNation, a fast-growing operator of used car superstores, and it has been quite a year for the Florida-based entrepreneur.

There is order behind this apparent chaos, says Mr

Republic plans to have more than 80 superstores by 2000

Michael Karsner, Republic's chief financial officer. The waste management and security businesses, with high margins and strong cash flow, will provide the cash to support the expansion of AutoNation, he says.

Republic plans to add 13 more superstores this year, taking the total to 20, and will have more than 80 by 2000, Mr Karsner adds.

The combination of new car dealerships, used-car superstores and car rental companies also has a clear logic, according to Republic:

the cars and trucks being retired from rental fleets, along with vehicles which are acquired in part-exchange for new vehicles are meant to provide the stock to feed AutoNation's massive superstores.

The company plans to continue buying large dealers which operate close to the sites of its AutoNation stores, Mr Karsner says.

Until recently, Detroit was merely intrigued by Mr Huizenga's ambitions. But now, with the acquisitions flowing, the interest has turned more to anxiety, reflecting a concern about the effect Republic could have on the sale of new and used vehicles across the country.

Unlike parts of Europe, the US dealership system is the preserve of private - and mainly small - businesses, giving the carmakers considerable clout in the way their vehicles are sold.

But Mr Huizenga has set out to challenge that by consolidating power in a very fragmented industry. He has already had an effect, with both General Motors and Ford agreeing in recent weeks to relax their ban on public ownership to



Wayne Huizenga: causing uproar in the car sales industry

allow him to acquire their dealers.

As Mr John Devine, Ford's chief financial officer, said last week: "Although the private entrepreneur is the backbone of the distribution business, we have to acknowledge that change is here and will accelerate."

The carmakers remain cautious about the impact Republic will have - and not just because the company's incursions have caused uproar among existing privately-held dealerships, which fear they will lose out.

The emergence of bigger, more powerful, retailers could weaken the carmakers' power "in the same way that Wal-Mart put pricing pressure on a whole range of other industries", says Mr David Garrity, an analyst at Smith Barney in New York. But, he adds, Mr Huizenga could help to make cars more affordable by undercutting existing dealers - something which could be in the long-run interest of the carmakers.

Richard Waters

Lockheed to spin off 10 units into new grouping

By Christopher Parkes in Los Angeles

Lockheed Martin, the leading US defence and aerospace group, is to spin off 10 non-core businesses into an independent mini-conglomerate with annual revenues of \$850m and 4,900 employees.

Lehman Brothers Capital Partners, a division of the New York-based finance house, will own half the company, to be known as L3 Communications.

Lockheed will retain 35 per cent and the remainder is being purchased by two Lockheed executives. The value of the deal, which is expected by the end of March, was not disclosed.

The buy-out marks one of the earliest and biggest steps in the expected "clean-up" phase following consol-

idation of the US defence industry.

According to Mr Jon Kutler, president of Quarterdeck Investment Partners, a Los Angeles investment bank specialising in aerospace, dozens of spin-offs and sales are expected following a four-year period of mega-mergers which entered its closing stages recently with Boeing's takeover of McDonnell Douglas and Raytheon's purchase of Hughes Aircraft.

Mr Kutler said the industry's main objective was restoring focus on core operations and using asset sales to pay down debt.

The businesses comprising L3 Communications were involved mainly in making high-technology products, while the parent group's long-term focus was on

major systems. Lockheed said yesterday. The move would allow the group to streamline operations further, it added.

Remaining operations formerly grouped with the spun-off assets will be integrated into Lockheed's electronics and information services divisions. Electronics revenues of \$3.3bn in 1995 would increase to almost \$8bn as a result, and information services annual sales would rise from \$4.5bn to more than \$7bn.

The management team at the new company will be led by Mr Frank Lanza and Mr Robert LaPenta, currently Lockheed group vice-presidents. Mr Lanza was president of Loral, acquired by Lockheed last year. Mr LaPenta was senior vice-president of Loral.

Empresas sale cuts debt ratio

By Daniel Dombey in Mexico City

Empresas La Moderna, the Mexican conglomerate with interests in seeds, packaging and tobacco, yesterday announced it had completed the \$240m sale of its Agronomic subsidiary to Monsanto of the US.

Proceeds from the sale, which had been agreed in September of last year, will go to reduce La Moderna's high debt to equity ratio.

The company ended last year with debt to equity of about 140 per cent, a figure it expects to reduce to about 110 per cent as a result of the sale.

While most of La Moderna's agrobusiness subsidiaries are focused on fruit and vegetable seeds, Agronomic, which had about

\$180m of sales in 1996, specialises in grain seeds.

In December 1994, La Moderna paid \$300m for Asgrow Seed, Asgrow Agronomic's parent. Asgrow Seed's vegetable seed division, which La Moderna is not selling, made about \$140m in sales last year.

La Moderna's seed interests, grouped together in its Seminis subsidiary, account for about a fifth of the worldwide vegetable seed market. Seminis' revenues are likely to fall from about \$580m for 1996 to \$400m in 1997. But it expects operating cash flow to stay at about \$70m, since the vegetable and fruit seed businesses have higher margins.

La Moderna expects total sales for 1996 to be \$1.6bn and operating cash flow to be \$320m.

Write-off puts Elan in red

Elan, the Ireland-based drug company which completed a \$630m merger with Athena Neurosciences of California last year, reported a 33 per cent increase in net income to \$31.2m for the third quarter to December 31, up from \$23.4m in the same period in 1995. This was before taking account of a one-time charge of \$175m related mainly to the write-off of goodwill connected with the consolidation of Advanced Therapeutic Systems, one of its off-balance sheet research vehicles. After charges, Elan reported a loss for the period of \$144.2m.

Revenues were up 52 per cent at \$94.8m, against \$65.7m in 1995. Product sales, which include contract manufacturing for clients and sales of Elan marketed products, more than doubled to \$47m. Research revenues were up 112 per cent to \$15.3m, while royalty and fee income was down 17 per cent to \$22.3m.

The consolidation of Athena, with a one off charge in the second quarter of \$49.9m, resulted in increased costs in the period to December. Expenses were up 52 per cent to \$53.8m, against \$35.3m. Pre-tax profit, before charges, for the nine-month period was up 40 per cent to \$88.1m, against \$62.8m in 1995.

John Murray Brown, Dublin

Brazilian M&A activity surges

Mergers and acquisitions in Brazil increased 53 per cent in 1996, according to a report by accountancy firm KPMG, which provides further evidence of the widespread restructuring of the Brazilian economy.

The total number of transactions last year rose from 214 to 328. This compares with 58 takeovers recorded in 1992 when the report was first produced, at a time when the Brazilian government was just starting to liberalise its economy.

The number of mergers and acquisitions involving foreign companies rose 25 per cent to 165 in 1996. However, transactions involving only domestic companies nearly doubled to 163, suggesting that the Brazilian corporate sector is beginning to take a more aggressive attitude towards the changing economic situation.

The food, drink and tobacco sectors witnessed the most corporate activity with 38 deals, while Brazil's bloated banking industry saw 31 mergers or acquisitions last year, according to the report.

Geoff Dyer

Intel chief sees no slowdown

Mr Andrew Grove, chief executive of Intel, the US semiconductor manufacturer, said he saw no reason to expect a slowdown in growth for the semiconductor industry or his company, the world's biggest maker of computer chips.

"Our growth basically depends on the growth of the industry," Mr Grove told a news conference at the World Economic Forum in Davos, Switzerland. "The growth of the industry has... for many years been in the high teens (as a percentage) and I really see no reason in the long-term or the near-term for that number to be different."

Intel last month reported fourth-quarter profits more than doubled to \$1.9bn - its seventh consecutive year of record revenues and earnings.

Reuters, Davos

Inco in new Voisey's Bay find

Inco, the Canadian mining group, has made a new find that will expand reserves at its Voisey's Bay nickel-copper-cobalt property in Labrador, previously put at 150m tonnes of nickel-copper-cobalt ore. The find lies beneath the western ore zone, one of three making up the Voisey's Bay deposit. Initial drilling revealed grades ranging from 1.2 per cent to 2.8 per cent nickel, similar to those in the main Ovoid zone, Inco said.

Robert Gibbons, Montreal

This announcement appears as a matter of record only

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Senior Lead Managers and Co-Underwriters

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The Bank of Nova Scotia

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ING Bank N.V.
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Lead Managers

Den Danske Bank

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23

THE NEW DIGEST

Brazil posts fall for year

The Brazilian firm of BAT, the UK's largest services company, yesterday announced that it had posted a fall in profits for the year ended in May of a 22 per cent stake in the firm, one of Brazil's largest cell phone operators, Anglo American of South Africa.

part of a programme of disposals which began in 1993. Operating profits, which dominated the Brazilian company's income, fell 22 per cent to R\$204.5m (R\$100m = £100,000) in 1996, after incurring a loss of R\$100m in May of a 22 per cent stake in the firm, one of Brazil's largest cell phone operators, Anglo American of South Africa.

off puts Elan in red

Internet-based drug company which completed a £100m sale of its shares in October, reported a 20 per cent increase in net loss for the third quarter to December 31, up from the same period in 1995. This was before a one-time charge of \$17m related to the sale of its assets, which included the company's research facilities. After charges, Elan reported a net loss of \$1.4m.

Elan's net loss was up 12 per cent to \$1.4m, against a net profit of \$1.1m in the same period. The company's net loss was up 12 per cent to \$1.4m, against a net profit of \$1.1m in the same period. The company's net loss was up 12 per cent to \$1.4m, against a net profit of \$1.1m in the same period.

British M&A activity surges

British M&A activity surged in 1996, according to a report by the British Venture Capital Association (BVCA). The report, which is the first of its kind, shows that British M&A activity surged in 1996, according to a report by the British Venture Capital Association (BVCA).

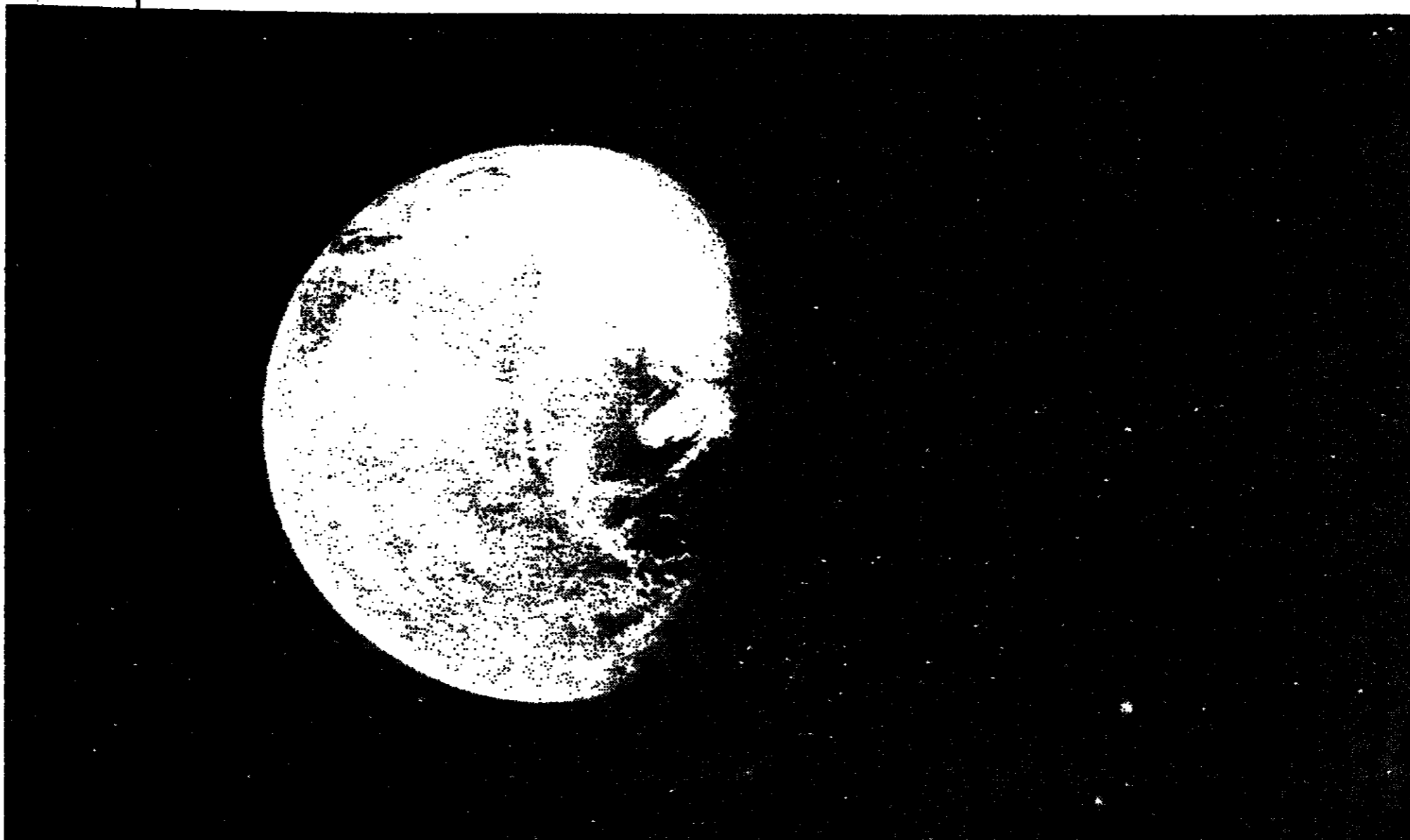
The report, which is the first of its kind, shows that British M&A activity surged in 1996, according to a report by the British Venture Capital Association (BVCA). The report, which is the first of its kind, shows that British M&A activity surged in 1996, according to a report by the British Venture Capital Association (BVCA).

Chief sees no slowdown

Chief sees no slowdown in the home improvement market, according to a report by the British Venture Capital Association (BVCA). The report, which is the first of its kind, shows that British M&A activity surged in 1996, according to a report by the British Venture Capital Association (BVCA).

in new Voisey's Bay

in new Voisey's Bay, according to a report by the British Venture Capital Association (BVCA). The report, which is the first of its kind, shows that British M&A activity surged in 1996, according to a report by the British Venture Capital Association (BVCA).



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A I M Management
Group Inc.
has agreed to merge with
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\$1,615,000,000

American Re
Corporation
was acquired by Munich
Reinsurance Company
\$4,000,000,000

Aseguradora
Mexicana, S.A.
was acquired by Seguros
Comercial América,
S.A. de C.V.
\$128,000,000

Australia and New
Zealand Banking
Group, Limited
Subordinated Notes
\$499,000,000

Banco Central Hispano
European Preferred
Shares
\$450,000,000

Banco Comercial
Portugués
Exchangeable US Preferred
Shares
\$250,000,000

Banco Espírito Santo
European Preferred
Shares
\$250,000,000

Banco Nacional de
México, S.A.
Subordinated
Exchangeable Capital
Debentures
\$326,000,000

Banco Português de
Investimento, S.A.
acquired Banco
de Fomento e
Exterior Group
\$1,380,000,000

The Bank of New York
Company, Inc.
sold its AFL-CIO Union
Privilege affinity
credit card portfolio
to Household
International, Inc.
\$3,975,000,000

Citibank Credit Card
Master Trust I
Asset-Backed Securities
DM1,000,000,000

Clayton, Dubilier &
Rice, Inc.
sold Van Kampen
American Capital, Inc.
to Morgan Stanley
Group Inc.
\$1,175,000,000

CT Financial
Services Inc.
has agreed to sell First
Federal Savings and Loan
Association of Rochester
to Marine Midland
Bank, a subsidiary of
HSBC Holdings plc
\$700,000,000

First USA Paymentech
acquired GENSAR
Holdings Inc.
\$170,000,000
Initial Public Offering
and Add-ons
\$379,000,000

Friends' Provident
Life Office
Eurosterling
Bond Offering
£215,000,000

HomeSide, Inc.
Senior Secured Notes
\$200,000,000
Bridge Loan
\$90,000,000

Household Finance
Corporation and Household
International, Inc.
Euro Yen Bonds
¥15,000,000,000

Kookmin Bank
Global Depository Shares
\$300,000,000

Mitsubishi Corporation
Finance, plc
Euro Yen Bonds
¥10,000,000,000

The Sakura Bank,
Limited
Series II Noncumulative
Mandatory Convertible
Preference Shares
¥150,000,000,000

DEAL OF THE YEAR
Standard Federal
Bank Corporation, Inc.
has agreed to be
acquired by
ABN-AMRO Bank NV
\$1,900,000,000

DEAL OF THE YEAR
State Bank of India
Global Depository
Receipts
\$390,000,000

Tempest Reinsurance
Company, Limited
was acquired by
ACE Limited
\$956,000,000

Thai Farmers Bank
Public Company
Limited
Subordinated Bonds
\$200,000,000

Toronto-Dominion
Bank
acquired Waterhouse
Investor Services, Inc.
\$525,000,000

USF&G Corporation
acquired Afianzadora
Insurgente Serfin, S.A.
de C.V. from
Grupo Financiero
Serfin, S.A.
\$65,000,000

Health Care

Aetna Services Inc.
Notes and Debentures
\$1,393,000

Alza Corporation
Convertible
Subordinated Debentures
\$500,000,000

Axogen Limited
Units
\$95,000,000

Bergen Brunswig
Corporation
has agreed to merge with
IVAX Corporation
\$1,650,000,000

Beverly Enterprises,
Inc.
sold its MedView
Services business to
Value Health, Inc.
\$87,500,000

Boston Scientific
Corporation
acquired Symbiosis
Corporation from
American Home
Products Corporation
\$153,000,000

Caremark
International Inc.
was acquired by
Mullikin Inc.
\$2,600,000,000

Community Health
Systems, Inc.
was acquired by
Forstmann Little & Co.
\$1,265,000,000

Dura Pharmaceuticals,
Inc.
Common Stock
\$319,000,000

Élan Corporation, plc
American Depository
Shares
\$100,000,000

FHP International
Corporation
has agreed to be acquired
by PacificCare Health
Systems, Inc.
\$2,200,000,000

Genesis Health
Ventures, Inc.
Common Stock
\$211,000,000
Senior Subordinated
Notes
\$125,000,000

HCIA Inc.
Common Stock
\$345,000,000

HealthPlan Services
Corporation
acquired Consolidated
Group, Inc.
\$62,000,000

Mariner Health
Group Inc.
Senior Subordinated
Notes
\$150,000,000

Microcide
Pharmaceuticals, Inc.
Initial Public Offering
\$40,000,000

Orinda HealthCorp
has merged with Tenet
Healthcare Corporation
\$3,100,000,000

Oxford Health
Plans, Inc.
Common Stock
\$230,000,000

Pharmacia & Upjohn
Global Common Stock
\$2,000,000,000

The Procter & Gamble
Company and
E. Hoffman-
La Roche Ltd
advised with respect to
the value of their
partnership Procter-
Synthelabo Health Products
Company

Renal Treatment
Centers, Inc.
Convertible
Subordinated Notes
\$125,000,000

SmithKline
Beecham PLC
Preferred Stock
\$750,000,000

DEAL OF THE YEAR
U.S. Healthcare, Inc.
was acquired by Aetna
Life and Casualty
Company
\$8,772,000,000

Waters Corporation
Common Stock
\$366,000,000

DEAL OF THE YEAR
WellPoint Health
Networks Inc.
acquired the Group
Life and Health
subsidiary of
Massachusetts Mutual
Life Insurance
Company
\$380,000,000

Recapitalization
\$1,230,000,000
Common Stock
\$419,000,000

Agrium Inc.
Tender Offer for
Viridian Inc. Debt
\$392,506,000

Aristech Chemical
Corporation
Notes
\$150,000,000

CBI Industries, Inc.
was acquired by
Praxair, Inc.
\$2,300,000,000

DEKALB Genetics
Corporation
sold a 40% economic
interest to Monsanto
Company
\$158,000,000

E.I. du Pont de
Nemours and
Company
has agreed in principle to
sell its 50% stake in its
Nisachlor joint venture to
Olin Corporation
Value not disclosed

Forstmann Little & Co.
sold Thompson Minwax
Holding Corporation to
The Sherwin-Williams
Company
\$830,000,000

Freedom Chemical
Company
Senior Subordinated
Notes
\$125,000,000

W.R. Grace & Co.
has effected by means of
a "Morris Trust" structure
the merger of National
Medical Care, Inc.
with Fresenius
Medical Care AG
\$4,600,000,000

soltd its Dearborn water-
treatment and process
chemicals business to
Betz Laboratories, Inc.
\$632,000,000
has agreed to sell its
Grace Cocos business
to Archer Daniels
Midland Company
\$430,000,000
soltd its Amicon
separation sciences
business to Millipore
Corporation
\$125,000,000

Hanson plc
has spun off Millennium
Chemicals Inc.
\$1,900,000,000

Henkel KGaA
acquired the Novamax
Technologies specialty
chemical business of The
Molson Companies
Limited
\$187,000,000

IMC Global Inc.
STRYPES™
\$249,000,000

Pratt & Lambert
United Inc.
was acquired by The
Sherwin-Williams
Company
\$482,000,000

Tri Polya Finance B.V.
Guaranteed Secured
Notes
\$184,000,000

Tessenderlo Chemie
Equity Block Trade
\$142,000,000

Zeneca Group PLC
sold its Specialty Inks
business to a unit of
Dainippon Ink &
Chemicals Inc.
\$62,000,000

Zoltek Companies, Inc.
Common Stock
\$74,000,000

152/104



Automotive

Blue Bird Body Company
Syndicated Loans
\$255,000,000
Senior Subordinated Notes
\$100,000,000

Borg-Warner Automotive, Inc.
acquired the automotive businesses of Coltec Industries, Inc.
\$277,000,000
Common Stock
\$127,000,000

Desc, S.A. de C.V.
American Depository Shares
\$79,000,000

General Motors Acceptance Corporation
Inaugural Samurai Bonds
\$56,000,000,000

General Motors Corporation
restructured its holding in Saab Automobile AB through a capital injection, a loan conversion and the structuring of an option agreement with Investor AB with regard to its holding in Saab Automobile AB
Value not disclosed

Hayes Wheels International Inc.
has agreed to acquire Lemmerz Holding GmbH
\$365,000,000
Syndicated Loans
\$645,000,000

Larizza Industries, Inc.
was acquired by Collins & Aikman Corporation
\$174,000,000

Lobdell Emery Corporation
was acquired by The Oxford Investment Group
Value not disclosed

Prince Holding Corporation
sold its Prince Automotive subsidiary to Johnson Controls, Inc.
\$1,350,000,000

The Pullman Company
was acquired by Tenneco Inc.
\$328,000,000

AEA Investors Inc.
acquired the Merder Toledo division of Ciba-Geigy AG
\$770,000,000
Syndicated Loans
\$387,000,000
Senior Subordinated Notes
\$135,000,000
Bridge Loan
\$135,000,000

Burnfield PLC
defense with respect to the unsolicited offer received from Fairway Group plc
\$101,000,000

Cable Systems International, Inc.
Syndicated Loans
\$170,000,000

Caterpillar, Inc.
acquired the MaK Maschinenbau GmbH unit of Fried. Krupp AG Hoesch-Krupp
Value not disclosed
acquired an interest in F.G. Wilson from Emerson Electric Company
Value not disclosed



Capital Goods

Danaher Corporation
acquired Acme-Cleveland Corporation
\$201,000,000
Common Stock
\$77,000,000

E.I. Holdings Corporation
was acquired by Assa Abloy AB
\$342,700,000

Elag Bailey Process Automation
(a company of the Finmeccanica Group) acquired Hartmann & Braun from Mannesmann AG
\$718,000,000
Syndicated Loans
\$950,000,000
Convertible TOPSSM
\$200,000,000

General Signal Corporation
sold its L&N Products unit to Honeywell Inc.
Value not disclosed

"Holderbank" Financière Glarus AG
through its subsidiary "Holdercim" Brasil S.A. acquired Companhia de Cimento Portland Paraiso
Value not disclosed
LYONSSM
\$fr250,000,000

Ingersoll-Rand Company
sold its Pulp Machinery Division to Harnischfeger Industries, Inc.
\$125,000,000
sold its Process Equipment Division to Gencor Industries, Inc.
\$72,000,000
has agreed to sell its Clark-Hurth Components unit to Dana Corporation
Value not disclosed

KCI Konecranes
Initial Public Offering and Add-on Shares
\$223,000,000

Kawasaki Heavy Industries
Common Stock
\$6,312,000,000

Manchester Tank & Equipment Co.
was acquired by AEA Investors Inc.
Value not disclosed

Rafineria Gdanska
Private Placement
\$100,000,000

DEAL OF THE YEAR
Swire Pacific Limited
Preferred Shares
\$300,000,000

Tyco International Ltd.
acquired Carlisle Plastics Inc.
\$315,000,000



Natural Resources

International Paper
Senior Debt
\$175,000,000

Kaiser Aluminum & Chemical Co.
Senior Notes
\$226,000,000
Value not disclosed

Placer Dome Inc.
COPISSM
\$299,000,000

Plum Creek Timber Company, L.P.
acquired the mid-south forests and solid-wood conversion facilities of Riverwood International Corporation
\$540,000,000
Limited Partnership Interests
\$153,000,000

QUNO Corporation
was acquired by Donohue Inc.
CS1,300,000,000
Syndicated Loans
\$125,000,000

Reynolds Metals Company
has agreed to sell its residential construction operations to AmeriMark Inc.
Value not disclosed

Sanfill, Inc.
was acquired by USA Waste Services, Inc.
\$1,800,000,000

Steel Authority of India
Global Depository Receipts
\$125,000,000

Valmet Corporation
Global Common Stock
\$378,000,000

WMC, Ltd.
Senior Notes
\$398,000,000

Western Waste Industries
merged with USA Waste Services, Inc.
\$700,000,000



Information Technology

ASAP Software Express, Inc.
was acquired by Corporate Express, Inc.
Value not disclosed

AT&T Corporation
sold Imagination Network Inc. to America Online, Inc.
Value not disclosed

Augat Inc.
was acquired by Thomas & Betts Corporation
\$550,000,000

CSC Enterprises
Senior Notes
\$150,000,000

BREAKTHROUGH DEAL
Cisco Systems, Inc.
acquired StrataCom, Inc.
\$4,666,000,000

acquired Telebit Corporation
\$197,100,000
acquired TGV Software, Inc.
\$119,000,000

BREAKTHROUGH DEAL
Electronic Data Systems Corporation
Secondary Sale of Common Stock by General Motors Special Hourly Employees Pension Trust
\$1,072,000,000

General Motors Corporation
split off Electronic Data Systems Corporation to its Class E Common Stock holders
\$27,720,000,000

Hewlett-Packard Finance Company
Euro Yen Bonds
\$10,000,000,000

Hyundai Electronics Industries Co., Ltd.
through Hyundai Electronics America acquired the 60.2% of Maxtor Corporation-it did not already own
\$391,000,000

KEMET Corporation
defense with respect to an unsolicited offer received from Vishay Intertechnology, Inc.
Merisel, Inc. sold its European and Latin American businesses to CHS Electronics, Inc.
\$154,000,000

Selectron Corporation
acquired Force Computers Inc.
\$205,000,000
acquired the custom manufacturing services business in Texas and Malaysia of Texas Instruments Incorporated
\$130,000,000
Convertible Subordinated Notes
\$230,000,000
Senior Notes
\$150,000,000

Unisys Corporation
Convertible Subordinated Notes
\$299,000,000
USCS International, Inc.
Initial Public Offering
\$94,000,000

Allbritton Communications Company
Senior Subordinated Debentures
\$274,000,000

DEAL OF THE YEAR
Bell Atlantic Corporation
has agreed to merge with NYNEX Corporation
\$33,100,000,000

Cablevision Systems Corporation
Redeemable Preferred Stock
\$650,000,000

Cox Communications, Inc.
STRYPESSM
\$224,000,000

Dow Jones & Company, Inc.
in partnership with ITT Corporation acquired WNYC-TV
\$207,000,000

Hollinger International Inc.
through The Telegraph plc sold a 25% stake (4.99% of which is subject to shareholder approval) in John Fairfax Holdings Ltd. to Briefley Investments Ltd.
\$437,000,000

DEAL OF THE YEAR
Infinity Broadcasting Corporation
was acquired by Westinghouse Electric Corporation
\$5,000,000,000

Mannesmann AG
as leader of a consortium which also includes AT&T Corporation, Unisource and Deutsche Bank acquired a 49.8% stake in DBKorn from Deutsche Bahn AG
\$662,000,000

Microcell Telecommunications Inc.
Senior Discount Notes and Warrants
\$200,000,000

Multicam Participações S.A.
American Depository Shares
\$155,000,000
Senior Guaranteed Notes
\$185,000,000

NetSat Services Ltd.
Senior Secured Notes
\$200,000,000

News America Holdings Incorporated
Notes
\$1,000,000,000

News Corporation Exchange Trust
Exchangeable Convertible TOPSSM
\$1,000,000,000

Occidente y Caribe Celular, S.A.
Senior Discount Notes
\$100,000,000

PTT Telecom BV
(subsidiary of Vision Networks NV) acquired a 17.28% stake in P.T. Telekomunikasi Selular Indonesia
\$304,000,000

Pacific Telesis Group
TOPSSM
\$1,000,000,000

Park Broadcasting, Inc.
Senior Notes
\$235,000,000

Park Communications, Inc.
Senior Pay-In-Kind Notes
\$80,000,000

Poland Communications, Inc.
Senior Notes
\$130,000,000

DEAL OF THE YEAR
Portugal Telecom, S.A.
sale of additional shares by The Government of Portugal
\$944,000,000

The Providence Journal Company
Initial Public Offering
\$123,000,000

Rogers Cantel
Senior Secured Debt
\$943,000,000

Rogers Communication
Senior Notes
\$100,000,000

The E.W. Scripps Company
has effected by means of a "Morris Trust" structure the sale of its cable business to Comcast Corporation
\$1,575,000,000

DEAL OF THE YEAR
Sprint Spectrum L.P.
Senior Notes
\$750,000,000

Tele-Communications, Inc.
has spun off TCI Satellite Entertainment, Inc. through a tax-free distribution to its holders of common stock
\$1,121,000,000
acquired the cable TV operations of Viacom Inc.
\$2,325,000,000

Telecommunications International, Inc.
Convertible Bonds
\$345,000,000

DEAL OF THE YEAR
Telefonica Del Peru
American Depository Shares
\$918,000,000

Teleport Communications Group Inc.
Initial Public Offering
\$432,000,000

Tribune Company
has agreed to acquire Renaissance Communications Corporation
\$1,113,000,000

Turner Broadcasting System, Inc.
merged with Time Warner Inc.
\$10,800,000,000

DEAL OF THE YEAR
The Walt Disney Company
Senior Notes
\$2,600,000,000

Young Broadcasting Inc.
Senior Subordinated Notes and Common Stock
\$364,000,000



Municipals

Allegheny Health, Education and Research Foundation
Tax-Exempt and Taxable Debt Recapitalization of Allegheny University Hospitals and Allegheny University of the Health Sciences
\$410,344,000

Baptist Health System, Inc. Alabama
Tax-Exempt Acquisition and Refunding Bonds
\$79,265,000

California Housing Finance Agency
Home Mortgage Revenue Bonds
\$140,000,000

The City of New York
General Obligation Bonds, Tax-Exempt and Taxable
\$982,475,000

Contra Costa Transportation Authority
Sales Tax Revenue Bonds (Limited Tax Bonds)
\$185,425,000

Dade County Educational Facilities Authority
Revenue Refunding Bonds (University of Miami Issue)
\$71,445,000

Florida Ports Financing Commission
Revenue Bonds
\$222,320,000

Hackensack University Medical Center
A Taxable Off Balance Sheet Master Lease Financing
\$66,600,000

Hawaii Hurricane Relief Fund
Syndicated Loan Facility
\$750,000,000

Inova Health System Virginia
Tax-Exempt Health Care Revenue Bonds
\$104,000,000

Massachusetts Health and Educational Facilities Authority
Baystate Medical Center Revenue Bonds
\$78,545,000

Presbyterian Healthcare System
Dallas, Texas
Tax-Exempt Capital Project and Refunding Bonds
\$110,250,000

Puerto Rico Highway and Transportation Authority
Revenue and Refunding Bonds
\$1,075,275,000

San Bernardino County, California
Certificates of Participation (Medical Center Financing Project)
\$65,070,000

Shands Teaching Hospital and Clinics, Inc. Florida
Tax-Exempt Acquisition and Project Funding Bonds
\$150,000,000

South Dakota Housing Development Authority
Homeownership Mortgage Bonds
\$120,645,000

State of Connecticut
General Obligation Bonds
\$159,055,000

State of Washington
Adjustable Rate General Obligation Bonds
\$100,000,000

Wisconsin Housing and Economic Development Authority
Home Ownership Revenue Bonds
\$60,000,000



Sovereigns & their Agencies

City of Gdansk Bonds
PLN 99,300,000

DEAL OF THE YEAR
City of Naples
Notes
\$195,000,000

Council of Europe
Eurobonds
\$500,000,000

DEAL OF THE YEAR
CYBER-VAL 07/96
Floating Rate Secured Financing
Fr40,000,010,000

European Bank for Reconstruction and Development
Euro Yen Bonds
\$5,000,000,000

The Export-Import Bank of Japan
Euro-Asian Bonds
\$750,000,000

DEAL OF THE YEAR
Rennie Mac
Global Notes
¥100,000,000,000

Finnish Export Credit
Samurai Bonds
¥10,000,000,000

Government of Kazakhstan
sold 85% stake in the Shymkent oil refinery to a consortium led by Vitol S.A.
\$230,000,000

Government of Kazakhstan
sold 85% stake in the Shymkent oil refinery to a consortium led by Vitol S.A.
\$230,000,000

Guangdong International Trust & Investment Corporation
Yankee Bonds
\$200,000,000

Hellenic Republic
Eurobonds
DM1,000,000,000

DEAL OF THE YEAR
Inter-American Development Bank
Global Bonds
\$1,000,000,000

International Bank for Reconstruction & Development
Euro Yen Bonds
¥35,000,000,000

Global Bonds
\$992,000,000

Kingdom of Sweden
Eurobonds
Fr3,000,000,000

Municipality of Rio de Janeiro
Yankee Notes
\$125,000,000

Government of Kazakhstan
sold 85% of Yuzhnepetrotaz Production Association to Hurricane Hydrocarbons Ltd.
\$400,000,000

DEAL OF THE YEAR
People's Republic of China
Yankee Notes and Bonds
\$460,000,000

Petróleo del Perú S.A.
sold its 60% interest in Refinería La Pampilla, S.A. to a consortium including Repsol S.A.
\$180,500,000

Perú
sold its Block 8/8X oil and gas licensing contract to a consortium led by Pluspetrol Perú Corp.
\$142,200,000

Perú
sold its Block X oil and gas licensing contract to Petex Compagnie S.A.
\$202,000,000

DEAL OF THE YEAR
Province of Ontario
Global Bonds
C\$1,250,000,000

Republic of Argentina
Global Bonds
\$1,000,000,000

Republic of Colombia
Privatization of Banco Popular
\$274,000,000

DEAL OF THE YEAR
Republic of Italy
Floating Rate Notes
Global Issue
\$2,000,000,000

Republic of Lithuania
Domestic Bonds
Lit200,000,000

Republic of Moldova
Private Placement
\$30,000,000

Republic of South Africa
Yankee Bonds
\$297,000,000

State of Israel
Euro Medium Term Notes Programme
\$750,000,000

Eurobonds
\$200,000,000

Swedish Export Credit
Dual Currency Samurai/Euro Yen Bonds
¥28,000,000,000

Swedish Ministry of Finance
has agreed to sell its 34% stake in Stadshypotek AB to Svenska Handelsbanken AB
\$1,040,000,000

DEAL OF THE YEAR
United Mexican States
Global Bonds
\$1,000,000,000



Energy & Global Power

Alberta Energy Company Ltd.
acquired Conwest Exploration Company Limited
\$800,000,000

Apache Corporation
acquired The Phoenix Resource Companies, Inc.
\$400,000,000

Arethusa (Off-Shore) Limited
was acquired by Diamond Offshore Drilling, Inc.
\$963,000,000

Atlantic Richfield Company
acquired a minority stake in Russian state-owned LUKoil through the acquisition of convertible bonds. Value not disclosed.

Atmos Energy Corporation
has agreed to merge with United Cities Gas Co.
\$501,000,000

BJ Services Company
acquired NOWSCO Well Service Ltd.
\$581,300,000

Common Stock
\$335,000,000

Senior Notes
\$124,000,000

The Brooklyn Union Gas Company
has agreed to merge with Long Island Lighting Company
\$8,200,000,000

Commonwealth Edison Company
has agreed to sell the Kincaid Generating Station and the State Line Generating Station to affiliates of Dominion Energy, Inc. and Southern Company, respectively
\$250,000,000

Delmarva Power & Light Company
has agreed to merge with Atlantic Energy, Inc.
\$2,200,000,000

Diamond Offshore Drilling, Inc.
Common Stock
\$394,000,000

Electrafina SA and Royale Belge SA
(affiliates of Groupe Bruxelles Lambert SA) sold its 24.5% stake in Tractebel SA to Société Générale de Belgique
\$1,600,000,000

Enron Corp.
TOPISSM
\$200,000,000

Flores & Rucka Inc.
Common Stock and Notes
\$310,000,000

GPU, Inc.
in partnership with Energy Corp. acquired Midlands Electricity plc
\$2,610,000,000

Kansai Electric Power Company, Incorporated
Euro Bonds
\$500,000,000

Euro Bonds
Fr3,000,000,000

DEAL OF THE YEAR
Kansas City Power & Light Company
pending defense with respect to an unsolicited offer from Western Resources Inc.
\$2,850,000,000

Marubeni Corporation
acquired a 29.5% stake in Sibte Energy, Inc.
\$267,000,000

Noble Drilling Corporation
Notes and Common Stock
\$409,000,000

NorAm Energy Corp.
has agreed to be acquired by Houston Industries Incorporated
\$3,750,700,000

Common Stock and Convertible TOPISSM
\$286,000,000

DEAL OF THE YEAR
OMV
Secondary Offering
\$393,000,000

Pacific Enterprises
has agreed to merge with Enova Corporation
\$4,383,000,000

Pacific Gas Transmission Company
has agreed to acquire Teco Pipeline Company
\$380,000,000

PanEnergy Corp.
has agreed to merge with Duke Power Company
\$10,000,000,000

Phillips Petroleum Company
TOPISSM
\$300,000,000

Southwest Gas Corporation
sold Primet Bank, FSB to Norwest Corporation
\$190,000,000

Tejas Gas Corporation
acquired Transok, Inc. from Central and South West Corporation
\$890,000,000

Tenneco Inc.
sold its 50% interest in Kern River Gas Transmission to The Williams Companies, Inc.
\$205,000,000

Tide West Oil Company
has merged with HS Resources, Inc.
\$202,000,000

Transportadora de Gas del Sur S.A.
Notes
\$150,000,000

Ultramar Corporation
merged with Diamond Shamrock, Inc.
\$2,000,000,000

United Meriden Corporation
Common Stock
\$306,000,000

Unocal Corporation
sold its crude and natural gas assets in California to a subsidiary of Torch Energy Advisors Inc.
\$516,000,000

WPL Holdings, Inc.
has agreed to a three-way merger with IES Industries Inc. and Interstate Power Company to form Interstate Energy Corporation
\$3,800,000,000



Real Estate/Lodging & Entertainment

BREAKTHROUGH DEAL
Bally Entertainment Corporation
has merged with Hilton Hotels Corporation
\$3,000,000,000

Beacon Properties
Global Common Stock
\$755,000,000

Bristol Hotel Company
has agreed to acquire 61 Holiday Inn hotels from Bass PLC
\$659,000,000

CarrAmerica Realty Corp.
Common Stock
\$164,000,000

Real Estate Services Group, Inc.
Initial Public Offering
\$87,000,000

Casino America Inc.
Senior Secured Notes
\$315,000,000

CB Commercial Real Estate Services Group, Inc.
Initial Public Offering
\$87,000,000

Chateau Properties, Inc.
has agreed to merge with ROC Communities, Inc.
\$1,069,000,000

Crescent Real Estate
Common Stock
\$464,000,000

Crocker Realty Trust, Inc.
was acquired by Highwoods Properties, Inc.
\$540,000,000

Equity Residential Properties
Debt and Equity
\$446,000,000

Essex Property Trust, Inc.
Common Stock
\$135,000,000

Franchise Finance Corp. of America
Franchise Loan Pass-Through Certificates
\$179,000,000

General Electric Capital Corp.
Matterhorn One
\$826,000,000

HFS Incorporated
acquired Coldwell Banker Corporation from The Fremont Group, Inc.
\$740,000,000

acquired Resort Condominiums International Inc.
\$825,000,000

Interstate Hotels Corp.
Initial Public Offering and Common Stock Add-ons
\$376,000,000

Bridge Loan
\$195,000,000

Kaufman & Broad Home Corporation
Senior Subordinated Notes
\$125,000,000

P.T. Kawasari Industri Jababeka Tbk
Global Depository Receipts
\$70,000,000

Kranzco Realty Trust
Commercial Mortgage Pass-Through Certificates
\$181,700,000

Ladbroke Group plc
has agreed to a worldwide hotel and gaming alliance with Hilton Hotels Corporation
Value not disclosed

Marriott International Inc.
LYONSSM
\$287,000,000

New York Life Insurance Co.
Real Estate Portfolio Sale
\$340,000,000

Paragon Group, Inc.
has agreed to be acquired by Camden Property Trust
\$610,000,000

DEAL OF THE YEAR
Simon Property Group, Inc.
acquired DeBartolo Realty Corporation
\$3,019,000,000

Solidere
Global Depository Receipts
\$77,000,000

Starwood Lodging Trust
Common Stock
\$451,000,000

Thistle Hotels Plc
Initial Public Offering
\$563,000,000

Unibail
has formed Crossroads Property Investors a Real Estate Partnership
Fr1,608,000,000

United Dominion Realty Trust, Inc.
acquired South West Property Trust Inc.
\$528,000,000

World Financial Properties
Commercial Mortgage Loan Lease-Backed Certificate
\$1,307,000,000



Private Equity

Best Friends Pet Care
Convertible Preferred Stock
\$23,000,000

Bruckman, Rosser, Sherrill & Co., L.P.
Private Equity-Buyouts
\$325,000,000

Cinven Capital Partners
Private Equity-U.K. and European Buyouts
£300,000,000

Eurolink III
Private Equity-European Equity
ECU 97,200,000

Fremont Partners, L.P.
Private Equity-Buyouts
\$602,000,000

Silicon Video Corporation
Convertible Preferred Stock
\$55,000,000

Supermarkets Holding, L.P.
Private Equity-Argentine Supermarket Buyouts
\$215,000,000

Bridge Loan
\$130,000,000

Syndicated Loans
\$100,000,000

Thayer Equity Investors III, L.P.
Private Equity-Buyouts
\$364,000,000

Zell/Merrill Lynch Real Estate Opportunity Partners IV
Private Equity
\$593,000,000



Transportation

America West Airlines
Common Stock
\$141,000,000

Aviall, Inc.
sold its engine and component repair operations to Greenwich Air Services, Inc.
\$250,000,000

Consolidated Freightways, Inc.
has spun off its CF MotorFreight unit, its Canadian operations and other related businesses through a tax-free distribution to shareholders
Value not disclosed

Continental Airlines, Inc.
Common Stock
\$210,000,000

FlightSafety International, Inc.
was acquired by Berkshire Hathaway, Inc.
\$1,500,000,000

Iberia L.A.E.
sold a stake in Aerolineas Argentinas, Austral and Ladeo to Andes Holding BV
\$545,200,000

KLM Royal Dutch Airlines
sold preferred stock in Northwest Airlines Inc. to Northwest Airlines Inc.
\$227,060,000

Mayne Nickless, Ltd.
Senior Notes
\$349,000,000

Norfolk Southern Corporation
has offered to acquire Conrail Inc.
\$12,800,000,000

Quad-C, Inc.
sold a 40% stake in TDS Logistics, Inc. to Harper Group, Inc.
Value not disclosed

Railroad Association Insurance, Ltd.
was acquired by X.L. Insurance Co. Ltd.
Value not disclosed

Trans Ocean Ltd.
was acquired by Transamerica Corporation
\$112,000,000

UAL Corporation
offer to exchange its TOPS™ for its existing UAL Series B Preferred
Value not disclosed



Retail/Apparel

Ann Taylor Stores Corporation
Convertible TOPS™
\$101,000,000

Blue Square-Israel Ltd.
American Depositary Shares
\$76,000,000

Brylane, L.P.
acquired certain assets of Chadwick's of Boston from The TJX Companies, Inc.
\$300,000,000

Consolidated Stores Corporation
Common Stock
\$200,000,000

Controladora Comercial Mexicana, S.A. de C.V.
Common Stock
\$48,000,000

Designer Finance Trust
Convertible TOPS™
\$120,000,000

Designer Holdings Ltd
Initial Public Offering
\$248,000,000

Fingerhut Cos. Inc.
Asset Back Certificate
\$606,000,000

G. R. Herberger's, Inc.
has agreed to be acquired by Proffitt's, Inc.
\$185,600,000

Guest, Inc.
Initial Public Offering
\$126,000,000

Mossimo, Inc.
Initial Public Offering
\$83,000,000

Office Depot, Inc.
has agreed to merge with Staples, Inc.
\$4,366,000,000

J.C. Penney Company, Inc.
acquired Fay's Inc.
\$343,000,000

The Pep Boys—Manny, Moe & Jack LYONS™
\$150,000,000

Quality Food Centers, Inc.
has agreed to acquire Hughes Markets, Inc. and Keith Uddenberg, Inc.
\$450,000,000

Republic Industries, Inc.
acquired AutoNation Incorporated
\$646,000,000

Sears, Roebuck & Co.
Asset Back Certificate
\$523,000,000

acquired Orchard Supply Hardware Stores Corporation
\$414,000,000

The Shop & Shop Companies, Inc.
was acquired by Royal Ahold NV
\$2,950,000,000



Consumer Products & Services/Food & Beverage

APAC TeleServices, Inc.
Common Stock
\$345,000,000

The Alberto-Culver Company
acquired St. Ives Laboratories, Inc.
\$115,000,000

BET Public Limited Company
was acquired by Rentokil Group PLC
\$3,200,000,000

Carson, Inc.
Initial Public Offering
\$67,000,000

Dover Downs Entertainment, Inc.
Initial Public Offering
\$49,000,000

Einsteiner/Noah Bagel Corp.
Common Stock
\$132,000,000

Foodbrands America, Inc.
Senior Subordinated Notes
\$120,000,000

The Gillette Company
acquired Duracell International Inc.
\$7,748,000,000

Golden Bear Golf, Inc.
Initial Public Offering
\$40,000,000

Igloo Holdings Inc.
was acquired by Brunswick Corporation
\$154,000,000

James River Corporation of Virginia
sold its Flexible Packaging group to Prinpack Inc.
\$372,000,000

Kimberly-Clark Corporation
licensed the *Scottie* facial tissue brand and sold a tissue mill in New York to a subsidiary of J.D. Irving, Limited
Value not disclosed

Kimberly-Clark de Mexico, S.A. de C.V. and SCA Molinylete AB
advised with respect to the value of their Mexican joint venture

Kohlberg Kravis Roberts & Co.
acquired a majority stake in the parent company of Spalding & Evenflo Companies, Inc.
Value not disclosed

Syndicated Loans
\$650,000,000

Senior Subordinated Notes
\$200,000,000

Masco Corporation
sold its Home Furnishings Group to a company formed by Citicorp Venture Capital Limited.
\$1,030,000,000

McDonald's Corporation
7½% Subordinated Deferrable Interest Debentures
\$200,000,000

38% Swiss Franc Notes
\$5250,000,000

Metro Pacific Capital Limited
Convertible Bonds
\$135,000,000

Nuskin Asia Pacific, Inc.
Initial Public Offering
\$241,000,000

Rajovac Corporation
was acquired by The Thomas H. Lee Company
Value not disclosed

Revlon, Inc.
Initial Public Offering
\$207,000,000

Rockbox, Inc.
Initial Public Offering
\$72,000,000

S.T. Dupont
Initial Public Offering
\$91,000,000

Simmons Company
was acquired by Investcorp International, Inc.
Value not disclosed

Smarte Carte Corporation
was acquired by Haas Wheat & Farmers Incorporated
\$113,500,000

Syndicated Loans
\$103,000,000

Snyder Communications, Inc.
Initial Public Offering
\$152,000,000

Specialty Foods Corporation
sold BGH Holdings, Inc. and Burns & Ricker, Inc. to Bruckmann, Rosser, Sherrill & Co., Inc.
Value not disclosed

Swisher International Group, Inc.
Initial Public Offering
\$102,000,000

Syrtech Corporation
has agreed to be acquired by a company formed by The Thomas H. Lee Company
\$316,000,000

TelePizza, S.A.
Initial Public Offering
\$87,000,000

US Foodservice Inc.
has merged with Rykoff-Saxon, Inc.
\$620,000,000



1996: Recognition for making a difference.

Asiamoney

Investment Bank of the Year

Euromoney

Best Brokerage Firm
International Equity Research House
Japan—Best Foreign Securities
Lead Manager, Euro and Global Bonds
Most Innovative Derivatives House
Switzerland—Best Foreign Bank
United States—Best Securities Firm

Finance Asia

Best Debt Distribution House: International
Best Debt House
Best Investment Bank in the Region
Best MTN House

Global Finance

Hong Kong Team ranked #1:
Debt Origination
Debt Sales & Trading
Equity Origination

Institutional Investor

#1 All-America Research Team Survey
#1 in Fixed Income Research
#1 in Fixed Income Trading

International Financing Review

Australia/New Zealand Finance House
Deutsche Mark Bond House
Eastern Europe Debt House
FRN House
Foreign Yen Bond House
India Finance House
Latin American Debt Research House
Latin American Equity House
Securitisation House
U.S. Debt House
U.S. Equity House

World Equity

North American Equity House



Merrill Lynch

A tradition of trust.

COMPANIES AND FINANCE: ASIA-PACIFIC

Matsui move heralds Japan discount broking

By Gwen Robinson
in Tokyo

A decision by a small privately-owned Japanese securities company to cut some trading commissions heralds Japan's first wave of discount broking.

Matsui Securities said last Friday it planned to halve commissions on trades of over-the-counter shares and convertible bonds from March. It said yesterday it would bring forward its timetable to February 17, in response to investors' enthusiasm.

Matsui's decision follows similar moves by other securities compa-

nies, including Merrill Lynch and Paribas Capital Markets. It is expected to hasten the debate on financial deregulation among the government-appointed working groups in charge of planning the changes. One group is studying proposals for full liberalisation of stockbroking commissions.

Although fixed rates of commission apply to all trades up to ¥1bn (\$8m) in value on Japan's stock exchanges, fees for trading in OTC stocks can be set freely under the rules of the Japan Securities Dealers Association.

Up to now brokers have charged uniform commissions for all stock

trades. Fees for a transaction involving ¥2m worth of OTC shares, for example, are presently ¥20,500. Matsui's move would bring the fee down to ¥10,250.

The average monthly trading value of Japan's OTC market is about ¥800bn. Foreign securities houses account for about 9 per cent of brokers' market share in Japan.

For a stock exchange transaction involving a blue-chip issue such as Sony, the commission to buy just 500 shares from a Japan-based securities company comes to just under ¥40,000. In the US, the fee for an equivalent number of American Depositary Receipts of the

same company could be as little as \$25, according to US securities companies in Tokyo.

Japan's 280 securities houses have traditionally relied on high commission fees for much of their profit.

Mr Masashi Suzuki, chairman of the securities dealers association, estimates that for smaller brokers, commissions account for as much as 90-100 per cent of earnings. For Japan's big four brokers, they make up about 46 per cent.

Full liberalisation of commissions was inevitable, Mr Suzuki said. But it should come in step with deregulation in other sectors

of the finance industry, so that brokers could develop alternative sources of income.

"Other sectors of the finance industry want to see commissions become fully negotiable. Only securities companies themselves didn't want it. But now, they realise they can't stop this trend, so they're looking for other areas to be opened up," he said.

One financial analyst said: "It's the middle sector that will feel the pressure, the guys with cost structures often associated with much larger companies, who lack the loyal client base that small firms have."

Bank of East Asia upbeat after 14.5% rise

By Louise Lucas
in Hong Kong

The Bank of East Asia, Hong Kong's third-biggest listed bank, yesterday reported a 14.5 per cent rise in 1996 net earnings, from HK\$1.64bn in 1995 to HK\$1.88bn (US\$243m).

The results, which were at the upper end of market expectations, partly reflect the improved operating environment for banks in Hong Kong.

Buoyant property and stock markets stimulated demand for mortgages, while a rebound in the domestic economy stimulated activity in the retail and construction sectors.

One of the main engines for growth was an increased net interest margin, which rose from 2.45 per cent in the first nine months of 1995 to 2.6 per cent in the same period last year, suggesting



David Li, chairman

last year was a good one for Hong Kong's banking sector as a whole.

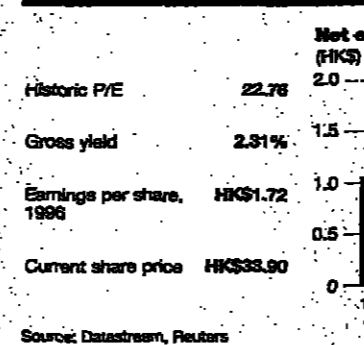
Mr David Li, chairman of Bank of East Asia, is also optimistic for the current year.

"Anticipated further improvement in the Hong

PROFILE

BANK OF EAST ASIA

Market value: HK\$37.0bn Main listing: Hong Kong



Source: Datastream, Reuters

Kong economy should stimulate stronger credit demand, especially in retail, property and construction financing. Funding costs will be kept at a comfortable level... so the banking sector is likely to continue to perform well in 1997," he said.

Bank of East Asia is pursuing non-mortgage consumer finance opportunities such as credit cards, which carry a higher margin, and is active in China.

Mr Tony Larkin, banking analyst for Jardine Fleming Securities, calculates that

China accounted for between 9 per cent and 10 per cent of total loans at the end of last year.

China contributed 12 per cent of the bank's profits last year, in line with the previous year.

The contribution from

Hong Kong dropped slightly, from 84.7 per cent to 81.4 per cent.

The bank saw provisions rise 63 per cent last year, to HK\$257.8m. These were sustained chiefly in the first half, when a number of trade financing transactions soured. Mr Li said the bank still hoped to recover some of the money.

Total customer deposits grew 5.65 per cent in the first three quarters of last year, while the loan book increased 2.18 per cent over the same period.

Earnings per share advanced 12.4 per cent, from HK\$1.63 to HK\$1.72.

The directors are recommending a final dividend of HK\$0.545, giving a total year payout of HK\$0.90, compared with the previous year's adjusted HK\$0.687.

A five-for-one bonus share issue has also been proposed.

Yaohan to cut assets as part of restructuring

By Gwen Robinson

Yaohan, the Japanese retailing empire, is to slash its gross assets by a third over the next two years, it announced yesterday.

The restructuring is intended to focus the company on its original mainstay supermarket business.

The Shanghai retailer had nearly ¥180bn (\$1.49bn) in gross assets in March 1996, and estimated net assets of ¥50bn, on an unconsolidated basis.

The moves are part of a broader restructuring of the Shanghai-based Yaohan International Holdings. The shake-up was launched last December to provide working capital, reduce debts and fund the expansion of the group's China operations.

Yaohan intends to reduce its interest-bearing debts from ¥101.7bn to ¥60bn in the next two years, on an unconsolidated basis.

The group's Japanese unit will liquidate holdings of securities and non-performing assets, including property, as well as more than 10 of its 58 stores and offices in Japan, and some overseas assets.

The company will halve its 400 staff at its Tokyo headquarters and shift more emphasis back to the low-to-medium range supermarket sector, dealing with food

items and sundry goods.

On a consolidated basis, the company plans to reduce its group gross assets from ¥249bn to ¥170bn, and interest-bearing debts from ¥184bn to ¥90bn.

However, some proceeds from the sell-off will be used to redeem outstanding bonds and raise operating capital through creditor banks.

Yaohan has more than 450 outlets in 15 countries including the US, Singapore, and Hong Kong. In Japan, Yaohan directly operates about 53 stores and has some 35 franchised outlets.

China and surrounding regions have been the focus of the group's international strategy. It plans to establish 1,000 stores on the Chinese mainland by the end of 2005.

At the same time, the group has decided to expand in the domestic market. It plans to open 100 new supermarkets in Japan by 2000.

Speculation of impending financial crisis at Yaohan Japan drove down the company's share price last November. The shares continued to plunge after Yaohan announced a sweeping restructuring the following month, and in the month to December 20, when they closed at ¥86, had they lost 50 per cent of their value.

The shares closed at ¥111 yesterday, down 19 per cent on the previous trading day.

ASIA-PACIFIC NEWS DIGEST

Malaysia licence awarded to NAB

National Australia Bank yesterday became the first Australian banking group to secure a banking licence in Malaysia. The bank, Australia's largest, said the licence was granted for Labuan, an island which Malaysia is promoting as an international offshore financial centre. The bank plans to establish a marketing office in Kuala Lumpur to support the new branch's activities. NAB already has a representative office in the city.

A Labuan licence does not entitle banks to conduct business on mainland Malaysia but, because of the island's tax-haven status, it is being used increasingly by foreign banks as a place through which many financial activities are booked. Some foreign banks also hope their presence in Labuan could lead to approval for operations in mainland Malaysia, where the central bank has frozen the issuance of new licences.

The award of the licence comes as NAB attempts to step up its presence in the Asia. The bank has already diversified into the UK, Ireland and New Zealand. It also recently acquired the Michigan National bank in the US. However, its presence in Asia is relatively modest, although it won banking licence approvals in Thailand and Taiwan in December. NAB currently has five Asian branches - in Taipei, Tokyo, Seoul, Singapore, and Hong Kong. *Nikki Tait, Sydney, and James Kyne, Singapore*

Spin-off plans lift Great Eagle

Shares in Great Eagle Holdings rose 4.5 per cent yesterday after the Hong Kong property and hotel company unveiled plans to raise HK\$2.5bn (US\$323m) by spinning off its commercial and office property arm. The move, three years after similar plans were abandoned, coincides with an upturn in property prices. Many analysts are forecasting further rises, fuelled in part by mainland banks and companies seeking to establish a presence in the territory.

Following the spin-off, Great Eagle will focus on residential and industrial properties, along with hotels, serviced apartments and restaurants. The new vehicle, Tai Shan Group, will concentrate on the ownership and development of mostly prime office and commercial properties. Tai Shan's portfolio will include landmark office properties such as Citibank Plaza, one of the company's main source of revenues, which houses banking groups and the Hong Kong Monetary Authority, the territory's de facto central bank.

Great Eagle will hold about 73 per cent of the newly-listed Tai Shan shares, which are due to be placed later this month. Peregrine Capital, part of the pan-Asian investment bank which was involved in the earlier abortive spin-off, has been appointed global co-ordinator and sponsor to the issue.

Investors welcomed the plans, pushing Great Eagle's share price up from HK\$31.40 to HK\$32.80. The group said advantages of the spin-off included the creation of a focused office and commercial property company which could raise cash for its own business.

By raising cash, it also provides funding for a large-scale development in Mongkok, an area on the Kowloon peninsula which is one of the most densely populated parts of the world. The Mongkok project, which comes under Tai Shan, comprises office, commercial and community facilities, and a bus terminal. It is due to be completed in 2001. *Louise Lucas, Hong Kong*

News Corp advance expected

After flat first-quarter earnings, News Corp, the media group headed by Mr Rupert Murdoch, is expected to show a significant profits improvement when it reports results for the first half-year, to end-December, on Thursday.

Profits, before abnormals, were virtually unchanged in the first quarter, at A\$286m (US\$218m). But analysts expect around A\$750m-A\$770m in the first half, compared with A\$663m a year ago. Improved results from the US television and film interests are likely to be the main factors, although the strengthening Australian dollar will not be helpful.

At last October's annual meeting, Mr Murdoch predicted a 20 per cent profits increase for his media and entertainment group in 1996-97 overall, but warned that the first quarter might be weak. *Nikki Tait*

China Eastern IPO priced

Shares in China Eastern Airline, the Shanghai-based carrier, were yesterday priced at HK\$1.38 for the Hong Kong stock (H-shares) offer and US\$1.8 for the American Depository Shares, each of which represents 100 H-shares.

The pricing is at the top end of the proposed subscription range. China Eastern's offer price puts it on a prospective price/earnings multiple of 10.6 times on a fully diluted basis. Analysts and bankers had expected China Eastern - which will become Hong Kong's 24th listed Chinese company, or H-share - to surge ahead of its recent predecessors because of increasing confidence on the Chinese economy.

The Hong Kong segment of the offering was 22 times subscribed, the sponsors said yesterday, while the bigger US and international issues received a "positive response".

The combined offering involves 1.4bn H-shares, and the airline - China's most profitable - will raise HK\$1.9bn. Morgan Stanley Asia is global co-ordinator, while ABN Amro Rothschild is co-sponsoring the Hong Kong IPO. *Louise Lucas*



Anglo American Platinum Corporation Limited
Rustenburg Platinum Holdings Limited
Potgietersrust Platinum Limited
Lebowa Platinum Mines Limited
(All companies incorporated in the Republic of South Africa)

Extracts from the Interim Reports for the six months ended 31 December 1996

| Anglo American Platinum Reg No. 59/02518/06 | | | |
|---|--------------------------------|--------------------------------|------------------------------------|
| | Six months ended 31/12/96 (Rm) | Six months ended 31/12/95 (Rm) | Year ended 30/06/96 (Rm) (Audited) |
| Net income before taxation | 125.7 | 153.7 | 397.7 |
| Net income after taxation | 95.1 | 125.8 | 319.5 |
| Capitalisation share awards and dividends | 71.2 | 93.9 | 207.8 |
| Earnings | 95.1 | 125.8 | 319.5 |
| Earnings per share (cents) | 53.9 | 75.4 | 190.3 |
| Dividends per share - interim | 40.0 | 55.0 | 55.0 |
| - final | - | - | 65.0 |
| Capital expenditure for the period | 4.3 | 14.7 | 6.1 |

| Rustenburg Platinum Reg No. 05/22452/06 | | | |
|--|--------------------------------|--------------------------------|------------------------------------|
| | Six months ended 31/12/96 (Rm) | Six months ended 31/12/95 (Rm) | Year ended 30/06/96 (Rm) (Audited) |
| Gross sales revenue | 1,885.0 | 1,872.5 | 3,886.2 |
| Profit before taxation | 130.1 | 198.7 | 531.3 |
| Net profit attributable to ordinary shareholders | 106.3 | 158.7 | 400.1 |
| Capitalisation share awards and dividends | 65.7 | 95.7 | 289.2 |
| Earnings per share (cents) | 81.6 | 125.7 | 314.4 |
| Dividends per share - interim | 50.0 | 73.0 | 75.0 |
| - final | - | - | 150.0 |
| Capital expenditure for the period | 180.1 | 168.4 | 352.7 |

| Potgietersrust Platinum Reg No. 01/08353/06 | | | |
|---|--------------------------------|--------------------------------|------------------------------------|
| | Six months ended 31/12/96 (Rm) | Six months ended 31/12/95 (Rm) | Year ended 30/06/96 (Rm) (Audited) |
| Gross sales revenue | 300.5 | 237.6 | 536.7 |
| Profit before taxation | 70.4 | 68.2 | 153.3 |
| Profit after taxation | 65.4 | 64.9 | 144.0 |
| Capitalisation share awards and dividends | 36.0 | 41.0 | 104.0 |
| Earnings per share (cents) | 51.4 | 52.7 | 116.2 |
| Dividends per share - interim | 28.0 | 33.0 | 33.0 |
| - final | - | - | 50.0 |
| Capital expenditure for the period | 11.4 | 21.1 | 46.2 |

| Lebowa Platinum Reg No. 03/06114/06 | | | |
|-------------------------------------|--------------------------------|--------------------------------|------------------------------------|
| | Six months ended 31/12/96 (Rm) | Six months ended 31/12/95 (Rm) | Year ended 30/06/96 (Rm) (Audited) |
| Gross sales revenue | 116.4 | 100.2 | 202.8 |
| (Loss)/Profit before taxation | (1.0) | 2.8 | 6.6 |
| (Loss)/Profit after taxation | (1.0) | 2.8 | 6.6 |
| (Loss)/Earnings per share (cents) | (0.8) | 2.3 | 5.5 |
| Capital expenditure for the period | 4.5 | 2.0 | 6.0 |

Capitalisation shares will be awarded to ordinary shareholders of Anglo American Platinum Corporation Limited, Rustenburg Platinum Holdings Limited and Potgietersrust Platinum Limited registered at the close of business on 28 February 1997. Shareholders may elect instead to receive interim cash dividends of 40 cents, 50 cents and 28 cents per ordinary share respectively. The terms of the capitalisation awards will be published on 24 February 1997 and the circulars to shareholders will be issued on 7 March 1997. Share certificates in respect of the new ordinary shares and cheques in respect of the interim cash dividends and fractional entitlements will be posted to shareholders on or about 9 April 1997.

The full text of the Interim Reports will be posted to shareholders and copies may be obtained from the London Secretaries JCI (London) Limited, 6 St James's Place, London SW1A 1NP or on website <http://www.amplats.co.za>.

4 February 1997

Republic of Croatia

Floating Rate Amortising Bonds (the "Bonds") Series A Due 31 July 2010

Notice is hereby given that the Rate of Interest has been fixed at 6.5% and that the interest payable on the relevant Interest Payment Date July 31, 1997 against Coupon No. 2 will be US\$32.68 in respect of US\$1,000 nominal of the Notes.

February 4, 1997 London
By: Citibank, N.A. (Corporate Agency and Trust), Agent Bank **CITIBANK**

CAISSE FRANCAISE DE DEVELOPEMENT

US\$100,000,000 FLOATING RATE NOTES DUE 2003

Notice is hereby given that the Rate of Interest for the period February 4, 1997 to August 4, 1997 has been fixed at 5.4375% and that the interest payable on the relevant Interest Payment Date August 4, 1997 against Coupon No. 9 in respect of US\$1,000 nominal of the Notes will be US\$136.49 in respect of US\$100,000 nominal of the Notes will be US\$2,733.85.

February 4, 1997 London
By: Citibank, N.A. (Corporate Agency and Trust), Agent Bank **CITIBANK**

APPOINTMENTS

ADVERTISING

appears in the UK edition every Wednesday & Thursday and in the International edition every Friday. For further information please

Contact:
Toby Finden-Crofts
+44 0171 873 3456

Republic of Croatia

Floating Rate Amortising Bonds (the "Bonds") Series B Due 31 July 2006

Notice is hereby given that the Rate of Interest has been fixed at 6.5% and that the interest payable on the relevant Interest Payment Date July 31, 1997 against Coupon No. 2 will be US\$31.50 in respect of US\$1,000 nominal of the Notes.

February 4, 1997 London
By: Citibank, N.A. (Corporate Agency and Trust), Agent Bank **CITIBANK**

Landes-Kreditbank

Baden-Württemberg

US\$200,000,000

Subordinated Floating rate

notes due 2003

Notice is hereby given that the notes will bear interest at 5.4375% per annum from 4 February 1997 to 4 August 1997. Interest payable on 4 August 1997 will amount to US\$27.34 per US\$1,000 note and US\$73.39 per US\$10,000 note and US\$2,733.85 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

Mortgage Securities

(No.3) PLC

US\$300,000 Class A2

US\$150,000 Class A3

US\$100,000 Class B

Mortgage backed notes due 2035

For the interest period 31 January 1997 to 30 April 1997 the notes will bear interest as follows:

Class A2 7.3125% per annum

Class A3 6.9625% per annum

Class B 7.3125% per annum

Interest payable 30 April 1997 will be as follows:

A2 \$1,222.69 per \$68,639 note

A3 \$1,691.71 per \$100,000 note

B \$1,783.05 per \$100,000 note

Agent: Morgan Guaranty Trust Company

JPMorgan

Firm becomes first of the 'Big Six' accountants to publish externally audited accounts

KPMG's fee income rises 6% to £624m

By Jim Kelly,
Accountancy Correspondent

KPMG yesterday became the first 'Big Six' accountancy firm to publish externally audited accounts - exposing the once private world of the partnership to further outside scrutiny.

"We believe that public and political opinion is moving towards full disclosure by professional firms and we are right to provide this information," said Mr Colin Sharman, senior partner.

The firm, which became the first to publish results last year, announced fee income up 6 per cent to £624m (£610m) and average profits per partner - the total paid to each of the firm's 561 partners - up 12 per cent to £206,000.

Grant Thornton, a competitor and leading mid-tier

firm which believes it has won a foothold in an expanding market, was paid a fee of £222,000 to audit the firm and gave KPMG an unqualified clean bill of health.

Both KPMG and Grant Thornton said they would now press for a new statement of practice, backed by the Accounting Standards Board, to cover non-corporate accounts and introduce standard rules for firms publicly reporting.

Grant Thornton said that reporting on tax, pensions, and pay all presented problems for partnerships using the company format. They put a note on the problems in the accounts.

Partnerships are private businesses and do not need to publish financial results. Last year Ernst & Young fol-

lowed KPMG in publishing full results - internally audited. Some mid-tier firms also disclosed information but to a lesser extent.

Some firms are likely to resist external auditors because of the conflicts of interest involved. They also think partners - the firm's shareholders - have enough direct access to data.

But the number publishing is likely to increase sharply in the next few years as the government is offering to protect the personal assets of partners under a new law most likely in return for audited accounts.

Mr Sharman, whose own remuneration rose 4.1 per cent to £770,537, said external audit was part of the firm's commitment to be open with staff and clients.

KPMG was also partly



Colin Sharman: public and political opinion is moving towards full disclosure

required to publish accounts as it has incorporated its audit business to help protect partners' assets. The firm is pressing for its competitors to disclose as well.

Mr Sharman admitted that

the auditors had come up with several ideas on how to improve his business although he declined to give details. He said they had been "robust" and "challenging" and provided a fresh

insight into the firm.

Mr David Spence, a partner on the audit team, said Grant Thornton had to construct a system of Chinese walls to protect its new client.

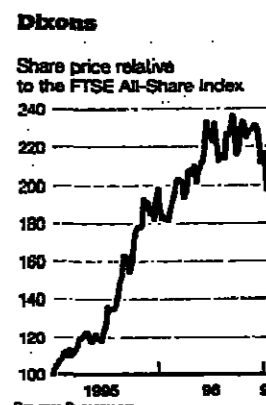
LEX COMMENT

Dixons

Sir Stanley Kalms, chairman of Dixons, should be reminded that actions speak louder than words.

His sale of a third of his shares in the electrical retailer, only days after criticising a broker's sell advice, must have left investors feeling rather peeved. Yesterday they took their revenge, knocking 7 per cent off the shares. That may look an over-reaction. Dixons is still the well-run company it was last week - and should show profits rising 40 per cent in the year to April. Thereafter, however, growth is set to slow. Part of that is due to more demanding comparatives, but there is also concern that rising interest rates and political change will hit consumer spending. Building society windfalls should help alleviate that. But anecdotal evidence from Cheltenham & Gloucester's experience shows only 25 per cent of recipients spend their money, mainly on holidays.

Meanwhile, demand for personal computers is decelerating. Some of the slack could be taken up by set-top boxes for digital television, but they will not impact until 1998. The rise in insurance premium tax, however, will shave £10m-£15m a year off profits from April. Some brokers, therefore, see both sales and profits growing at less than 5 per cent in 1998-99. Having more than doubled since 1995, Dixons shares are still trading at a 10 per cent premium to the market average. Having provided investors with a good excuse to take profits, Sir Stanley can hardly complain if they seize it.



Dixons share price falls 7%

By Peggy Hollinger

The controversial sale of 1.1m Dixons shares by chairman Sir Stanley Kalms contributed to a 7 per cent fall in the company's shares yesterday.

The shares closed 38p lower at 479p, representing the largest percentage fall by any company in the FTSE 100 index of companies. The decline was in part because of Sir Stanley's disposal of shares, announced after the market had closed on Friday.

However, it was also fuelled by a downgrade from Merrill Lynch, the broker, which is now advising clients to sell their shares on the basis that sales growth is expected to slow in the medium term.

Sir Stanley's disposal caused angry comment yesterday. It is understood that a large shareholder had already complained to the company's adviser, Cazenove, about Sir Stanley's conduct in criticising Mr Tony Cooper, an analyst with Greig Middleton. Mr Cooper last month advised clients to sell shares.

Other shareholders were more sanguine. If executives were to be remunerated with shares, "they should be able to capitalise on them," said one large investor.

Butte settles dispute with E&Y

By Kenneth Gooding,
Mining Correspondent

Butte Mining's unsuccessful attempts to pursue the courts former managers, advisers and promoters came to an end yesterday.

The campaign started five years ago with actions in the US and claims totalling \$1bn.

Butte, a London-listed company, settled its litigation with Ernst & Young, the international business and financial adviser.

The settlement involves both Butte and Ernst & Young dropping claims and counterclaims. Ernst & Young will forgo more than £300,000 of fees for past work and each side will waive cost awards.

Butte will pay £50,000 to Ernst & Young within 90 days while Mr David Lloyd-Jacob, Butte chairman, will pay a further £10,000. Mr Lloyd-Jacob said Butte had previously undertaken to pay his costs.

He said: "The UK courts have not been sympathetic to Butte's efforts to obtain a hearing for the case on its merits and Butte's directors have concluded that a settlement whereby Ernst & Young abandon their claim for fees plus interest, and cost orders against Butte, is in the best interests of shareholders."

The lawsuit arose from advice given by Ernst & Young during the 1987 flotation of Butte and an acquisition in 1988. Mr Nick Land, senior partner at E&Y, said: "We have always maintained the claims were without foundation."

Tomkins plans bolt-ons for Gates

By Tim Burt

Tomkins, the acquisitive conglomerate, is considering spending between £200m and £300m (£486m) on bolt-on acquisitions to increase its presence in continental Europe and the emerging markets of Latin America and Asia.

Mr Greg Hutchings, executive chairman, said yesterday that such deals were likely to be focused on Gates Corporation, the US autom-

tive components group bought for £74m last year.

"There will be add-on acquisitions at Gates, which has a strong exposure to emerging markets such as Brazil and Korea," he added.

Mr Hutchings used the prospect of further acquisitions to dispel market speculation of a share buy-back. Tomkins ended the first half with net cash of £370m.

He claimed that such a move would stifle Tomkins' ability to consider large

takeovers, effectively preventing it from seeking the £1bn-£2bn deal that it would like to make within the next two years.

"If we handed £250m back to shareholders now, when we came to do the big deal we could end up with gearing of 300 per cent and risk serious earnings dilution by issuing large amounts of paper," said Mr Hutchings.

He was speaking ahead of an analysts' visit tomorrow to one of Gates' largest Euro-

pean manufacturing plants, in Belgium. Although some analysts believe a share repurchase would enhance earnings per share, Mr Hutchings deemed it a move reserved for "companies with no future".

"There is no question that in the short term it would be beneficial to investors to have a buy-back. But that could prevent us using the cash productively. We are against it while there are acquisitions around the cor-

ner," he said.

Among the brokers to advocate a buy-back, Salomon Brothers calculates that Tomkins could spend more than £200m on a repurchase and still have about £280m to spend on acquisitions.

One institutional investor said the group could also contemplate a special dividend, adding: "There is some enthusiasm in the market to return some value to shareholders, and we would go along with that."

BAA lifted as passenger levels rise

By Michael Skapinker,
Aerospace Correspondent

An increase in passenger numbers helped BAA, the airports group, to a 6.2 per cent rise for the first three quarters of its current year.

The number of passengers using its seven airports - London's Heathrow, Gatwick and Stansted, and Glasgow,

Edinburgh, Aberdeen and Southampton - rose 4.4 per cent. The airports handled 78.6m passengers.

The group yesterday announced that profits in the nine months to December 31 were £377m (£343m). The outcome would have been £8m higher, but were depressed by the programme of smoothing the differential

between peak and off-peak passenger charges.

The smoothing programme has the effect of transferring profits from the first half of the year to the second. BAA said the £8m reduction in the nine-month period should be recovered in the fourth quarter.

The smoothing of charges, which affects the three London airports, is taking place over four years. BAA is in the second year of the programme, which followed consultation with airlines.

The group's revenue from airport and traffic charges gained 5.5 per cent to £385m. Net revenue from retailing rose 10.9 per cent to £331m.

Net retail income per passenger rose 6.2 per cent and property revenues swelled 8.4 per cent to £168m.

Operating profit added 9 per cent to £455m, and earnings per share were 28.9p, an increase of 5.5 per cent.

The Civil Aviation Authority told BAA last year to cut landing and take-off charges at Heathrow and Gatwick airports in real terms over the next five years.

Reward for Esprit backers

By Nicholas Denton

Apax Partners, Hancock Venture Partners and EM Warburg Pincus, the venture capital firms backing Esprit Telecom, are set to multiply the value of their investment five-fold when it floats.

The telecommunications operator, which is run from the UK, announced at the weekend that it was mounting an initial public offering on Nasdaq, the US stock market for hi-tech companies, and Easdaq, its European equivalent.

It is selling 29 per cent at a price of \$13-\$15 per American Depositary Receipt, a proxy for its shares. At that share price, the offering has a value of \$75m-\$81m and the company a market capitalisation of \$259m-\$280m.

It confirmed Lehman Brothers, the US investment bank, would be acting as lead manager of the US and international offerings, with Donaldson, Lufkin & Jenrette and HSBC Investment Bank acting as co-managers.

Esprit's financial backers, which invested a total \$23m between 1988 and 1996, will keep a stake of 55 per cent - worth up to \$154m - at the indicated offer price. The flotation will give them a paper profit of up to \$125m.

After the flotation, the 16 per cent of the company owned by Mr Michael Porter, chief executive of Esprit, and other managers will be worth \$45m. Esprit was only founded in 1991 and has not yet moved into profit.

Proceeds will be used partly to fund the expansion of Esprit's office network. Existing shareholders will only realise gains if demand allows an increase in the offering. The company was founded by Mr Walt Anderson, a US telecoms entrepreneur, and aims to be the MCI of Europe, emulating the challenger to AT&T in the US long-distance market.

RESULTS

| | Turnover (£m) | Pre-tax profit (£m) | EPS (p) | Current payment (p) | Date of payment | Dividends corresponding dividend | Total for year | Total last year |
|----------------|-------------------|---------------------|---------------|---------------------|-----------------|----------------------------------|----------------|-----------------|
| BAA | 9 mths to Dec 31 | 1,064 (597) | 397 (374)* | 28.9 (27.4) | - | - | - | 11.25 |
| Media Business | 6 mths to Oct 31 | 63 (49) | 0.585 (0.412) | 0.16 (0.12) | 0.035 | Mar 7 | 0.03 | 0.09 |
| Pacer Infosys | 6 mths to June 30 | 12.9 (15.8) | 0.6 (0.515) | 0.07 (0.06) | 0.03 | Mar 14 | 0.03 | 0.65 |

| | NAV (£) | Attributable Earnings (£m) | EPS (p) | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|------------------|------------------|----------------------------|---------------|---------------------|-----------------|------------------------|----------------|-----------------|
| European Assets | Yr to Dec 31 | 12.54 | 4.78* (4.58)* | 0.19 (0.18) | 0.11 | May 2 | 0.08 | 0.16 |
| Plan Claverhouse | Yr to Dec 31 | 301.5 | 261.9 (4.37) | 7.981 (7.9) | 2.2 | - | 2.15 | 6.55 |
| Mid Wynd Ind | 6 mths to Dec 31 | 481.3 | 480.7 (0.174) | 3.48 (0.17) | 3 | Apr 7 | 2.75 | 6.1 |
| TR Smaller | 6 mths to Nov 30 | 248.2 | 248.2 (0.51) | 1.29 (0.17) | 1.5 | Mar 14 | 1.5 | 3.85 |
| US Smaller | 6 mths to Dec 31 | 216 | 202.8 (0.036) | 0.13 (0.07) | - | - | - | nil |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional credit. †On increased capital. \$US currency; turnover, £English currency. *Already declared. †A June 30. *Comparative restated.

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional credit. †On increased capital. \$US currency; turnover, profits and earnings relate to Pacer Systems Inc. ‡Dutch currency. †Already declared. ‡At June 30. †Comparative restated.

Northern Foods plc

(the "Company")

Notice to the holders of the

£91,280,000

6% per cent. Convertible Subordinated

Bonds 2008

of the Company

(the "Bondholders" and the "Bonds" respectively)

Notice is hereby given that The Law Debenture Trust Corporation, PLC (the "Trustee") and the Company have agreed to modify the Trust Deed dated 19th February 1993 constituting the Bonds on, and subject to, the terms of a First Supplemental Trust Deed dated 3rd February 1997 and the Company, the Trustee, The Chase Manhattan Bank and Chase Manhattan Bank, Luxembourg, S.A. as Paying and Conversion Agents and The Chase Manhattan Bank as Registrar in relation to the Bonds have agreed to modify the Trust Deed and the terms of a Supplemental Agreement dated 3rd February 1997 in each case to allow Bonds in registered form to be held and transferred by means of the CREST system.

The CREST system is the new computerised settlement system which is to replace the current paper-based system operated by The London Stock Exchange. Individual Bondholders will retain the right to choose whether to hold and transfer their holdings of registered Bonds in paper form or in dematerialised form by means of the CREST system. Those holders of Bonds in bearer form who wish to hold their Bonds in dematerialised form will first have to request exchange of their Bearer Bonds for Bonds in registered form in accordance with Condition 5(a) of the Bonds.

It is expected that permission for the Bonds in registered form to be transferred through the CREST system will be granted before 10th March 1997, which is the first date on which such Bonds will be eligible for such transfer.

Copies of the Trust Deed, Paying and Conversion Agency Agreement, First Supplemental Trust Deed and Supplemental Agreement are available at the offices of The Law Debenture Trust Corporation PLC at Prince House, 95 Gresham Street, London EC2V 7LY and at the specified offices of the Paying and Conversion Agents and Registrar set out on the reverse of the Bonds.

4th February 1997

Issued by: Northern Foods plc

Gulf Canada expected to increase bid

By Michael Lindemann

Oil analysts today expect Gulf Canada Resources, the Canadian oil group, to raise its 105p per share bid for Clyde Petroleum, the UK independent, to up to 125p per share.

Gulf and its advisers were meeting in London late yesterday to finalise a revised bid for Clyde following their first bid in December.

The company yesterday insisted that its 105p per share offer remained "full and fair" but analysts argued that an offer of between 115p and 125p would not seem unreasonable. A cash bid of 125p per share would value Clyde at £514m (£332.7m).

Clyde's share price edged upwards 2p yesterday to close at 117½p.

Analysts also suggested that when Gulf made its final offer a competing bid could be forthcoming, possibly from North America.

Wassall takes 4% of TLG

By Tim Burt

Wassall, the industrial conglomerate, yesterday announced it had acquired 4.1 per cent of TLG in a move interpreted by some City analysts as a precursor to a possible bid for the lighting equipment group.

Shares in TLG, formerly part of Thorn EMI, jumped 13½p to 118½p after Wassall said it had bought 7.49m shares at a cost of about £7m. At yesterday's close, TLG was valued at about £212m (£943m).

"I don't see the commercial logic for a takeover approach [from Wassall] and such a move would be unwelcome," said Mr Hamish Bryce, TLG chief executive.

Mr Fred Watt, Wassall's finance director, said it made such investments from time to time. Industry analysts were split on whether Wassall would contemplate a bid for TLG.



SPOT THE REFUGEE

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left. You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing. And nothing is all they'll ever have unless we all extend a helping hand. We know you can't give them back the things that others have taken away.



United Nations High Commissioner for Refugees

We're not even asking for money (though every cent certainly helps). But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything. UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

UNHCR Public Information
P.O. Box 2500
1211 Geneva 2, Switzerland

INTERNATIONAL CAPITAL MARKETS

Italian prices fall on Emu eligibility fears

GOVERNMENT BONDS

By Edward Luce in London and Lisa Branstetter in New York

Italian bonds dropped sharply yesterday on mounting worries about Italy's chances of joining the first round of European monetary union. US Treasury prices rose in the morning on weaker than expected economic data, helping push UK gilt prices up 1/2% during afternoon trading in London.

Negative comments by German economists and businessmen over the weekend on Italy's Emu prospects helped shift market sentiment against BTPTs. Ten-year Italian BTPT March futures on Life fell 1.44 to close at 129.24. Italian spreads widened by seven basis points over German equivalent bonds to 164 points.

"Italy looks the most exposed European bond market in the firing line this

week, especially if Germany fails to give a convincing thumbs up to Italy's early Emu aspirations at the Italian-German summit in Bonn on Friday," said Mr David Brown, chief economist at Bear Stearns in London. "We would not rule out the 10-year BTPT bond spread finishing the week up at 175 basis points."

Traders said Spanish bonds were only mildly affected by yesterday's move against Italian bonds, reflecting the growing consensus that Spain and Portugal's economic fundamentals are healthier than Italy's. Bonds closed unchanged at 114 in Madrid. But 10-year spreads over German bonds widened to 106 basis points.

"From an economic point of view, Spain and Portugal could deserve to qualify while Italy probably won't," said Mr Ceris Williams, head of fixed income at Rothschild Asset Management in London. "Whether it would

be politically acceptable for this to happen is another matter."

UK gilts seemed to benefit from Italy's drop and the buoyancy in US Treasuries. The appreciation of sterling against the D-Mark and the US dollar also increased optimism that Mr Kenneth Clarke, the chancellor, would not raise UK interest rates at his meeting on Wednesday with Mr Eddie George, the governor of the Bank of England.

Traders said technical factors, including heavy Japanese buying overnight and an excess of demand over supply in early trading, also supported gilt prices.

The release of a purchasing managers' survey showing unspectacular manufacturing growth in the UK also bolstered sentiment.

Long gilts rose 1/2% to close at 111 1/2 on Life. Spreads over bonds narrowed sharply to 173 basis points. "Gilts' performance is

encouraging because no-one is expecting the gilts market to perform dramatically this side of the UK general election," said Ms Joanne Collins, senior market strategist at Nomura in London. "After the election, though, we predict gilts will rally quite strongly because they are very cheap in comparison to other European bonds."

But Mr Brian Marber, a technical analyst in London, said gilts had entered their ninth month of bull run, as measured against past performance rather than other markets. He said the preceding four bull runs in gilts had lasted eight, eight, nine and 37 months respectively.

"Each bull market has its own characteristics," said Mr Marber. "The fact that we are already in the ninth month does not necessarily make me a bear but a 37-month run is very long by any other standards." Economists had expected a more modest slowdown to 0.13 to close at 101.84 in quiet

trading. Ten-year French bond futures rose 0.16 to close at 130.64 on Matif.

US Treasuries climbed in early trading as the first important indicator of January activity showed the economy to be slowing.

Near midday, the benchmark 30-year Treasury was 1/2% stronger at 96 1/2 to yield 6.73 per cent while the two-year note had risen 1/4 to 99 1/2, yielding 6.875 per cent. The March 30-year bond contract rose 1/4 to 111 1/2.

Bonds fell early in the morning after the Commerce Department reported personal income rose by 0.8 per cent in December, slightly stronger than expected.

The figure helped ease fears of an imminent rise in interest rates. The Federal Reserve's Open Market meeting is to begin a two-day meeting today. Few economists expect an interest rate increase this week, but many believe the Fed will raise rates in March or May.

This statistic was considered especially important because it gave the first indication that the economy slowed in January from the strong pace seen in the fourth quarter of last year.

A figure above 50 is considered a sign of expansion in the manufacturing sector, while anything below that number generally indicates contraction. Many economists therefore saw yesterday's data as a sign of moderate growth.

"The current reading implies modest expansion in the industrial sector, not excessive growth," said Mr Bruce Steinberg, of Merrill Lynch.

The figure helped ease fears of an imminent rise in interest rates. The Federal Reserve's Open Market meeting is to begin a two-day meeting today. Few economists expect an interest rate increase this week, but many believe the Fed will raise rates in March or May.

Mexico, Brazil set to launch D-Mark deals

INTERNATIONAL BONDS

By Samer Iskandar

Announcements of forthcoming eurobonds by emerging market borrowers overshadowed yesterday's quiet issuance.

Mexico said it would launch its DM1bn deal today, through Deutsche Morgan Grenfell and Dresdner Kleinwort Benson. The bonds will have a maturity of 12 years. Syndicate officials predicted they would offer a spread of 260 to 280 basis points over 10-year bond yields.

Brazil is also expected to tap the D-Mark sector in the next two weeks, with a

DM500m issue of 10-year paper. Credit Suisse First Boston will be lead manager. Meanwhile, the World Bank added a new tranche to an existing bond in South African Rand, while VW Financial Services issued in Czech koruna. Both deals were aimed at retail investors attracted by the high double-digit coupons.

The largest issue yesterday was \$250m of 10-year floating-rate notes from ANZ Banking Group. The bonds pay 25 basis points over interbank interest rates for the first five years, after which they can be redeemed by the borrower. If this option is not exercised, the

coupon rises to 75 basis points over Libor for the remaining five years. Lead manager is SBC Warburg. National Power is to refinance its A\$630m investment in Hazelwood Power, an Australian power generation company. The transaction will include A\$400m of 10-year bonds to be issued on the Australian domestic market, with BZW acting as lead manager.

A further A\$300m will be raised through a five-year syndicated loan arranged by Union Bank of Switzerland. Also, a A\$500m commercial paper programme will be set up through Commonwealth Bank of Australia.

New international bond issues

| Borrower | Amount m | Coupon % | Price | Maturity | Yield % | Spread bps | Book-runner |
|-------------------------|----------|----------|---------|----------|---------|----------------|----------------------|
| US DOLLARS | | | | | | | |
| ANZ Banking Group/First | 250 | 0.125 | 96.78R | Feb 2007 | 0.35R | | SBC Warburg |
| Bayrische Hypothek | 100 | 6.125 | 96.715R | Dec 1999 | 0.175R | +10 (5/11/Nov) | BGL/Citibank |
| YEN | | | | | | | |
| UB Rheinland-Platz | 150m | 5.20 | 100.00 | Feb 2000 | 0.50 | | Sumitomo Finance Int |
| SWISS FRANCES | | | | | | | |
| Oppland Energie/Oppland | 250 | 2.75 | 102.00 | May 2001 | 1.75 | | Bank of Ernst |
| Oppland Energie/Oppland | 150 | 3.50 | 102.00 | May 2003 | 2.25 | | CSFB |
| Oppland Energie/Oppland | 125 | 3.25 | 102.70 | Jan 2002 | 2.00 | | CSFB |
| PESETAS | | | | | | | |
| Nordeutsche Landesbank | 100m | 6.0 | 101.00 | Mar 2004 | 1.25 | | BNP&P |
| SOUTH AFRICAN RAND | | | | | | | |
| World Bank | 100 | 15.00 | 101.875 | Feb 1999 | 1.25 | | Hambros Bank |
| CZECH KORUNA | | | | | | | |
| VW Financial Services | 100 | 10.75 | 100.15R | Feb 1999 | 0.15R | | Deutsche M&L/Lehman |

Final terms, non-cashable unless stated. Yield spread over relevant government bond at launch as per lead manager. *Unrated. †Floating-rate note. R: Fixed re-offer price. See below at re-offer level. d: Callable from Feb 02 at 101.84. e: 3-month Libor +25bps to Feb 02, then +75bps. h: Redeemed in US\$. g: 5.92% to Mar 00, then 13.65% + 12-month Libor. d: R400m was increased to R500m. f: Long last coupon. g: Short last coupon.

In addition to the initial investment in Hazelwood, the refinancing will cover future capital requirements. National Power said.

A margin of 17.5 basis points over Libor will be paid on the loan, in addition

to a commitment fee of 8 basis points.

However, National Power would not comment yesterday on the savings that it expects to achieve through the refinancing.

CAPITAL MARKETS DIGEST

Russia to issue more eurobonds

Russia intends to issue two or three more eurobonds this year, broadening the pool of investors holding Russian assets and extending the maturity of its borrowings, the government said yesterday.

In an interview with the Interfax news agency, Mr Alexander Livshits, finance minister, said Russia would launch a D-Mark-denominated bond by the end of March. The issue would be around DM1bn and Deutsche Morgan Grenfell and Credit Suisse had been appointed to manage the issue. "We consider that Russia's new issue on the world financial market will be no less successful than our issue of eurobonds in November," he said.

Market sources suggest the Russian government could seek to raise \$1bn via eurobond issues this year, helping to pave the way for corporate and municipal bond issues. Russia returned to the international capital markets last year for the first time since the Bolshevik revolution of 1917 with a \$1bn eurobond issue, which was enthusiastically received by international investors. The issue was priced at 345 basis points above US Treasuries.

However, Mr Livshits said the proceeds of the new issue would be used to pay off the federal government's debts to federal employees and pensioners, raising some concerns among market analysts. It is not normal financial practice for governments to use long-term borrowings for current expenditures.

"If you borrow in a foreign currency, it would be strange to use the proceeds to finance backlogs of wages and pensions. But as we know, Russia likes breaking all the rules," one western economist said.

John Thornhill, Moscow

Slovenian GDR doubles

The price of the first international equity issue out of Slovenia more than doubled after the launch, as orders by investors totalled more than 25 times the amount on offer.

The Global Depository Receipts issued by SKB Bank, Slovenia's second-largest bank, in lieu of underlying domestic shares fell to \$174-\$179, after the range had been increased from \$164-\$174. The issue, which gave international investors a 16 per cent stake in the bank, raised \$24.7m. It was arranged by Nomura, with ING Barings and Deutsche Morgan Grenfell acting as co-managers.

The GDRs, which are expected to be listed on the London Stock Exchange, reached around \$40 late last week, before retreating yesterday to some \$33-\$35. The bank's book value is around \$21 a share, compared with a price equivalent to \$25 for the domestic shares.

Traders said the surge was mainly caused by a rush by investors who had not obtained the full amount bid for. "The GDRs are now back in more realistic territory, although they could fall a little bit more," one trader said. "But they will remain more expensive than the domestic shares, because international funds are willing to pay more than local investors."

Samer Iskandar, London

WORLD BOND PRICES

| BENCHMARK GOVERNMENT BONDS | | | | | | | | | |
|----------------------------|-------|--------|--------------|--------|----------|-----------|----------|--------|---------|
| Coupon | Rate | Price | Day's change | Yield | Week ago | Month ago | Year ago | 5-year | 10-year |
| Australia | 6.750 | 110.08 | 96.324R | +0.540 | 7.28 | 7.43 | 7.38 | | |
| Austria | 5.825 | 01/07 | 98.1200 | +0.090 | 5.74 | 5.84 | 5.87 | | |
| Belgium | 7.000 | 06/06 | 102.2500 | +0.140 | 6.59 | 6.74 | 6.59 | | |
| Canada | 7.000 | 12/06 | 103.7600 | +0.610 | 6.47 | 6.73 | 6.44 | | |
| Denmark | 8.000 | 03/06 | 110.8800 | +0.140 | 6.45 | 6.33 | 6.66 | | |
| France | 5.500 | 10/01 | 104.1698 | +0.500 | 4.50 | 4.53 | 4.58 | | |
| Germany | 8.500 | 10/08 | 106.7900 | +0.030 | 5.59 | 5.65 | 5.80 | | |
| Italy | 8.000 | 01/07 | 102.7100 | +0.170 | 5.71 | 5.80 | 5.83 | | |
| Japan | 8.000 | 08/08 | 100.5000 | +0.080 | 6.62 | 6.69 | 6.73 | | |
| Netherlands | 8.500 | 12/08 | 101.0000 | +0.170 | 7.19 | 7.48 | | | |
| Portugal | 5.500 | 09/01 | 121.4700 | +0.110 | 5.30 | 5.38 | 1.30 | | |
| Spain | 8.000 | 08/08 | 104.4343 | +0.030 | 2.38 | 2.35 | 2.39 | | |
| Sweden | 8.000 | 08/07 | 107.7458 | +0.320 | 6.93 | 6.85 | 6.80 | | |
| UK Gilts | 8.000 | 12/08 | 103.22 | +0.732 | 6.89 | 7.02 | 7.23 | | |
| US Treasury | 8.000 | 12/08 | 101.0000 | +0.030 | 7.31 | 7.49 | 7.59 | | |
| US Treasury | 9.000 | 10/08 | 112.12 | +0.292 | 7.40 | 7.58 | 7.87 | | |
| US Treasury | 8.500 | 10/08 | 100.13 | +0.182 | 6.44 | 6.65 | 6.34 | | |
| US Treasury | 8.500 | 11/26 | 96.31 | +0.292 | 6.74 | 6.92 | 6.59 | | |
| ECU (French Govt) | 7.000 | 04/08 | 107.2000 | +0.050 | 5.86 | 5.98 | 6.14 | | |

London closing, New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by non-residents). Source: M&S International

US: US 10Y in 30s, others in decimals

| US INTEREST RATES | | | | | | | | | |
|--------------------------------|-----------|-------------|-----------|----------|----------|------------|-----------|------------|---------|
| Treasury Bills and Bond Yields | | | | | | | | | |
| Rate | One month | Three month | Six month | One year | Two year | Three year | Five year | Seven year | 10 year |
| Prime rate | 6 1/2 | 6 1/2 | 6 1/2 | 6 1/2 | 6 1/2 | 6 1/2 | 6 1/2 | 6 1/2 | 6 1/2 |
| 90-day T-bill | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |
| 2-year T-bill | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |
| 3-year T-bill | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |
| 5-year T-bill | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |
| 7-year T-bill | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |
| 10-year T-bill | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |

BOND FUTURES AND OPTIONS

| France | | | | | | | | | |
|--|--------|--------|--------|--------|--------|-----------|-----------|-----|--------|
| NATIONAL FRENCH BOND FUTURES (MATIF) FF500,000 | | | | | | | | | |
| Mar | Open | Settle | Change | High | Low | Est. vol. | Open int. | Mar | Open |
| Mar | 130.58 | 130.64 | +0.16 | 130.74 | 130.52 | 60,424 | 127,777 | Mar | 129.24 |
| Jun | 129.24 | 129.24 | 0.00 | 129.24 | 129.24 | 5,258 | 14,733 | Jun | 129.24 |
| Sep | 127.58 | 127.64 | +0.16 | 127.58 | 127.58 | 238 | 778 | Sep | 127.58 |

| UK | | | | | | | | | |
|--|--------|--------|--------|--------|--------|-----------|-----------|-----|--------|
| NATIONAL UK BOND FUTURES (MATIF) £50,000 | | | | | | | | | |
| Mar | Open | Settle | Change | High | Low | Est. vol. | Open int. | Mar | Open |
| Mar | 111.01 | 111.07 | +0.24 | 111.25 | 111.01 | 73,884 | 17,040 | Mar | 111.01 |
| Jun | 111.01 | 111.07 | +0.24 | 111.25 | 111.01 | 384 | 552 | Jun | 111.01 |

| Germany | | | | | | | | | |
|--|--------|--------|--------|--------|--------|-----------|-----------|-----|--------|
| NATIONAL GERMAN BOND FUTURES (MATIF) DM250,000 | | | | | | | | | |
| Mar | Open | Settle | Change | High | Low | Est. vol. | Open int. | Mar | Open |
| Mar | 101.78 | 101.84 | +0.13 | 101.92 | 101.68 | 125,550 | 23,087 | Mar | 101.78 |
| Jun | 100.92 | 100.95 | +0.13 | 101.00 | 100.86 | 719 | 9710 | Jun | 100.92 |

| Japan | | | | | | | | | |
|---|--------|--------|--------|--------|--------|-----------|-----------|-----|--------|
| NATIONAL JAPANESE GOVT. BOND FUTURES (JGBF) ¥100m | | | | | | | | | |
| Mar | Open | Settle | Change | High | Low | Est. vol. | Open int. | Mar | Open |
| Mar | 126.35 | 126.37 | 0.00 | 126.37 | 126.35 | 887 | no | Mar | 126.35 |
| Jun | 126.35 | 126.37 | 0.00 | 126.37 | 126.35 | 887 | no | Jun | 126.35 |

| UK Gilts Prices | | | | | | | | | |
|-----------------|------|------|------|------|------|------|------|------|------|
| Notes | | | | | | | | | |
| Rate | 10Y | 15Y | 20Y | 25Y | 30Y | 35Y | 40Y | 45Y | 50Y |
| 10Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 15Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 20Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 25Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 30Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 35Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 40Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 45Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |
| 50Y | 7.41 | 7.31 | 7.01 | 6.81 | 6.61 | 6.41 | 6.21 | 6.01 | 5.81 |

| | | | | | | | | | |
|----------------------|--|--|--|--|--|--|--|--|--|
| Other Fixed Interest | | | | | | | | | |
| Notes | | | | | | | | | |

COMMODITIES AND AGRICULTURE

Eurostat ruling gives fillip to gold

MARKETS REPORT
By Kenneth Gooding
and Peter John

Gold received a temporary boost yesterday from Eurostat, the statistics arm of the European Union, which ruled that proceeds of gold sales by EU central banks could not be used to cut budget deficits in order to meet the entry criteria for European monetary union.

However, traders suggested the news would make little lasting impression, even though the fear of more central bank gold sales has weighed heavily on the price for some weeks.

"The market has known for some time that cutting deficits is not the main issue. The real issue is the way central bank reserve assets are being re-examined with investment performance in mind," one said.

Gold was "fixed" at \$344.30 a troy ounce in the afternoon in London, \$1.30 below Friday's afternoon fix. In late London trading it reached \$346.30 an ounce.

Mr Alan Wright, chairman of Gold Fields of South Africa, told Reuters he expected gold to trade between \$345 and \$365 for some months and that at present there were signs of more central bank selling.

On the London Metal Exchange, speculative fund buying sent nickel prices to a 4½-month peak in early trading. The price touched \$7,740 a tonne, an increase of 2 per cent from Friday's close, before profit-taking halted the rise. In late trading nickel for delivery in three months was \$7,670, up \$85 from Friday's close.

While the technical squeeze in the copper market has eased slightly, the premium for metal for immediate delivery, compared with three-month copper, was still relatively big: \$175 a tonne compared with \$225 on Friday. Traders said this would continue to attract

copper to LME warehouses and some expected the exchange to report today that its copper stocks had risen by between 10,000 and 15,000 tonnes.

Oil futures traded lower as dealers began to anticipate lower demand before refineries close for maintenance.

February Brent Blend opened at \$23.25 in Tokyo and drifted down throughout the day to hit \$23 at midday in London. It recovered slightly during the afternoon but dealers were still only prepared to pay \$23.04. However, March recovered lost ground to trade at \$22.54, six cents down on the day.

The gentle slide continued

Friday's trend as strong technical support failed to offset fundamental concerns. Brent fell 66 cents on Friday as dealers liquidated long positions in petroleum products, particularly in US heating oil futures.

Milder than normal weather for the time of year in the US north-east, the world's single largest heating oil market, has also helped turn prices lower.

However, some dealers were yesterday hoping that data on US oil stocks from the American Petroleum Institute expected tonight might provide renewed direction to the market.

Eurostat details, Page 2

Coffee futures prices up sharply

By Alison Maitland

Arabica coffee futures rose sharply in New York yesterday on speculative buying, amid continued fears about tight supplies.

In London, robusta coffee futures were driven up by news that Indonesia, a leading producer, was to cut exports in the first half by 150,000 bags as part of a producer agreement to limit supplies and raise prices.

The New York March position was up 4.85 cents at \$144.25 a pound in morning trading, while London's March contract closed 53¢ higher at \$1.535 a tonne.

Coffee futures prices have climbed for much of this year on the back of concerns about a smaller crop in Brazil and a dock strike in Colombia, two of the biggest coffee producers, at a time of growing world consumption.

Ms Judy Ganes, soft commodities analyst at Merrill Lynch in New York, said: "Central American supplies should be at their greatest but the coffee is being pushed up because it's all being absorbed."

The market climbed in New York despite indications that long positions held by speculators were at their highest since 1994.

This was seen as bearish. Ms Ganes said, because "all the funds are long of the market, so who is left to buy?"

Ms Douwe Egberts, the Dutch coffee roaster and wholesaler, said yesterday it would raise the retail price of its coffee in response to the sharp rise in raw prices. Better reports from Amsterdam.

The company said it would increase the price of a 250 gramme pack of coffee by 25 cents, making an average retail price of £13.55.

Zinc use ahead of production again in 1996

By Kenneth Gooding,
Mining Correspondent

Zinc consumption was at record levels and outpaced refined production for the second successive year in 1996 as the market struggled to absorb previous big surpluses and to cope with relatively low prices.

According to the International Lead & Zinc Study Group, there was a total of 218,000 tonnes, compared with a 198,000 tonnes deficit in 1995. In the previous three years the supply surplus totalled 1.2m tonnes.

The study group, which has 30 countries among its members, says the western world's production of refined zinc fell substantially below consumption - 5,459m tonnes against 6,279m tonnes - but exports from the former eastern bloc countries, and China in particular, made up most of the deficit.

China produced more than 1m tonnes of zinc for the third year in succession, with a rise of 1.1 per cent from the 1995 level to 1.09m tonnes. The ILZSG estimates that eastern net exports to the west totalled 465,000 tonnes, of which China accounted for 200,000.

The study group says that world consumption of zinc moved up marginally from 7,528m tonnes to 7,538m tonnes. Mine output rose from 6,955m tonnes to 7,021m tonnes and refined production slipped slightly from 7,33m tonnes to 7,317m tonnes.

Zinc's main uses are in coatings to protect iron and steel from corrosion, alloys for casting and as an element in brasses. Other markets include the use of zinc sheet for roofing and cladding buildings and of zinc oxide in tyres.

In a market review today, Metal Bulletin Research

points out that the slight fall in western world consumption last year followed two years of above-trend growth: 5.6 per cent in 1994 and 6.6 per cent in 1995.

Mr Neil Buxton, research director, suggests that growth will pick up again to 2.7 per cent both this year and in 1998.

Mr Buxton is forecasting western production will rise by 2.5 per cent this year and 3.8 per cent in 1998. He warns there is some danger of smelter capacity shortages developing.

MBR says that zinc stocks by the end of this year will represent only about six weeks consumption, suggesting that "the fundamentals should support a steady advance in zinc prices in 1997".

Mr Buxton predicts that zinc prices will end 1997 at about \$1,425 a tonne and average \$1,288 a tonne for the year, 25 per cent above the 1995 average.

The price of zinc has risen strongly in the past week, partly because of investment fund buying, and yesterday touched a two-year peak of \$1,175 a tonne.

MBR is forecasting a 1998 average of \$1,525 a tonne and a peak of more than \$1,650 a tonne, well below the price in previous bull markets.

Mr Buxton suggests that investment funds will take their profits at about that level and "cap" any rise.

European customers of MIM, the Australian group, said yesterday that the allocations of zinc concentrates - an intermediate product - would be cut by half this year because MIM's output would be down from 410,000 to 380,000 tonnes.

Helsinki offers hedge against pulp volatility

Today's launch of a trading exchange for wood pulp derivatives presents a long-sought opportunity for forestry groups to hedge against the pulp price volatility that has buffeted their profits in recent years.

Trading in pulp futures and options starts in Helsinki this morning - the first move in more than a decade to establish derivatives trading in pulp.

Previous attempts have been made to establish contracts for pulp, the biggest commodity without a futures market. But these failed partly because price swings had not been as exaggerated as in recent years.

The gap between price peaks and troughs has widened over the past 25 years, culminating in a roller-coaster ride in which prices rose from less than \$400 a tonne in 1993 to more than \$1,000 in 1995 and back down to around \$560 today. The violence of the latest swings appears finally to have convinced forestry executives of the merit of some kind of price insurance.

The Finnish Options and Futures Exchange is the first of three rival attempts to establish a pulp futures market. It will enjoy a head-start over OM Group, the Swedish derivatives exchange operator, which aims to launch trading in London in the second quarter of 1997. A third exchange is planned to open in Liverpool later this year.

Mr Anders Lindberg, president of the Helsinki exchange, said it aimed to reach a volume equivalent to 10 per cent of the \$25bn worth of pulp traded each year on the open market. An additional \$80bn of pulp is traded internally by companies, which is also subject to volatility and a potential source of futures contracts.

Some 30 companies, including the Norscan bloc of Scandinavian and North American producers, and Asian groups, have registered interest in trading in Helsinki. Between 12 and 15 companies have trained to trade on the exchange, while others are participating in exchange contracts through the two banks which have signed up as marketmakers

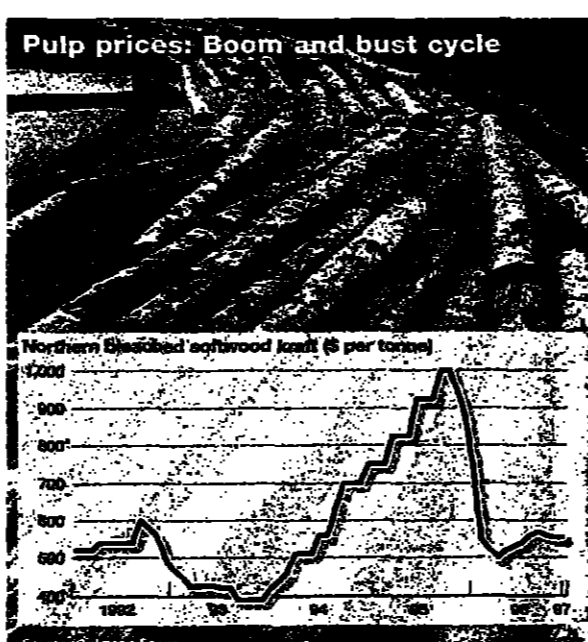
- Merita Bank of Finland and Sweden's Skandinaviska Enskilda Banken.

Problems with regulatory approval for market-makers in Helsinki resulted in postponement of the planned trading start in September. Most of the snags have been ironed out, but brokers not registered as commodities traders are still barred.

The pulp and paper industry will be eagerly watching to see how the system progresses but the industry is renowned for conservatism and a cautious start is likely.

"We will give it a little time first to see how the exchange develops, but our basic attitude is positive," said Mr Ulf Gunnarsson, of Södra, the Swedish company which is Europe's largest producer of market pulp.

Others prefer to wait for the inception of OM's scheme, which will be based on physical delivery rather than cash settlement in Helsinki. "We believe that London, as an established commodities trading centre, is a better location than Helsinki," said Stora, the Swedish forestry group.



Trades in Helsinki will be based on long-fibre, or northern bleached softwood kraft (NSBK), the industry benchmark. However, the exchange is confident short-fibre from southern producers will be tradable due to the absence of a physical delivery requirement and a close correlation between the prices of the two grades.

Contracts will be based on a benchmark index price which has been calculated weekly since June from data supplied to the exchange by 50 companies for their trade in Europe. The bottom 10 per cent and top 10 per cent of prices are filtered out in order to maximise accuracy.

Should the exchange attain its targets, it envisages offering trades in certain paper grades within the agenda are newsprint, some fine paper grades and recycled paper.

Greg McIvor

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Anonymous Metal Trading)

ALUMINIUM 99.7 PURITY (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|---------|-----------|-----|-----|
| 1601-11 | 1634.35 | | | |
| Previous | 1597.08 | | | |
| High/Low | 1608 | 1636/1627 | | |
| AM Official | 1604.05 | 1626.27 | | |
| Kerb close | 1604.05 | 1626.27 | | |
| Open int. | 244,823 | | | |
| Total daily turnover | 59,617 | | | |

ALUMINIUM ALLOY (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|-----------|------|-----|-----|
| 1515-20 | 1539.40 | | | |
| Previous | 1505.15 | | | |
| High/Low | 1540/1535 | | | |
| AM Official | 1535.40 | | | |
| Kerb close | 1535.40 | | | |
| Open int. | 5,200 | | | |
| Total daily turnover | 2,985 | | | |

LEAD (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|---------|------|-----|-----|
| 654-65 | 675.76 | | | |
| Previous | 659.61 | | | |
| High/Low | 677/673 | | | |
| AM Official | 662.45 | | | |
| Kerb close | 674.75 | | | |
| Open int. | 36,800 | | | |
| Total daily turnover | 8,008 | | | |

NICKEL (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|-----------|------|-----|-----|
| 7615-25 | 7710.20 | | | |
| Previous | 7489.90 | | | |
| High/Low | 7750/7650 | | | |
| AM Official | 7525.30 | | | |
| Kerb close | 7625.30 | | | |
| Open int. | 49,994 | | | |
| Total daily turnover | 21,841 | | | |

TIN (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|-----------|------|-----|-----|
| 5905-15 | 5865.70 | | | |
| Previous | 5805.15 | | | |
| High/Low | 5880/5865 | | | |
| AM Official | 5810.15 | | | |
| Kerb close | 5850.90 | | | |
| Open int. | 15,612 | | | |
| Total daily turnover | 4,113 | | | |

ZINC, special high grade (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|-----------|------|-----|-----|
| 1133-54.5 | 1173.74 | | | |
| Previous | 1151.74 | | | |
| High/Low | 1173/1165 | | | |
| AM Official | 1149.50 | | | |
| Kerb close | 1169.69 | | | |
| Open int. | 86,555 | | | |
| Total daily turnover | 21,944 | | | |

COPPER, grade A (\$ per tonne)

| | Close | High | Low | Vol |
|----------------------|-----------|------|-----|-----|
| 2382-87 | 2190.92 | | | |
| Previous | 2395.40 | | | |
| High/Low | 2415/2398 | | | |
| AM Official | 2393.98 | | | |
| Kerb close | 2196.90 | | | |
| Open int. | 150,402 | | | |
| Total daily turnover | 77,997 | | | |

LME AM Official \$/t rate: 1.8150

LME Closing \$/t rate: 1.8125

Spt 1 1933 1 mths 1.8104 6 mths 1.8088 9 mths 1.8038

HIGH GRADE COPPER COMEX

| | Close | High | Low | Vol |
|----------------------|---------------|------|-----|-----|
| 103.80 | 103.80 | | | |
| Previous | 102.45 | | | |
| High/Low | 104.10/101.70 | | | |
| AM Official | 101.15 | | | |
| Kerb close | 101.15 | | | |
| Open int. | 99.35 | | | |
| Total daily turnover | 821,457 | | | |
| 11,428 | 95,327 | | | |

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz) \$ price

Close 346.00-346.00

Opening 344.00-345.10

Morning fix 343.75 214,736 488,775

Afternoon fix 344.20 215,535 480,628

Day's High 343.75

Day's Low 343.50-343.80

Previous close 344.00-344.00

Loop Ltd Mean Gold Lending Rates (Vs US\$)

1 month 3.42 6 months 3.52

2 months 3.55 12 months 3.69

3 months 3.65

Silver Fix p/troy oz US \$25 equiv.

Spot 304.25 487.80

3 months 305.40 493.65

6 months 312.70 495.55

1 year 321.60 511.65

Gold Coins \$ price & equiv.

Kruggerand 345-347 214-215

Maple Leaf 91-94 50-52

Precious Metals continued

GOLD COMEX (100 Troy oz: \$/troy oz)

| | Close | High | Low | Vol |
|-----------|--------|------|-----|-----|
| Feb 347.4 | 347.4 | | | |
| Mar 346.5 | 346.5 | | | |
| Apr 345.7 | 345.7 | | | |
| May 344.9 | 344.9 | | | |
| Jun 344.1 | 344.1 | | | |
| Jul 343.3 | 343.3 | | | |
| Aug 342.5 | 342.5 | | | |
| Sep 341.7 | 341.7 | | | |
| Oct 340.9 | 340.9 | | | |
| Nov 340.1 | 340.1 | | | |
| Dec 339.3 | 339.3 | | | |
| Total | 44,894 | | | |

PLATINUM NYMEX (50 Troy oz: \$/troy oz)

| | Close | High | Low | Vol |
|-----------|-------|------|-----|-----|
| Apr 387.4 | 387.4 | | | |
| May 386.5 | 386.5 | | | |
| Jun 385.6 | 385.6 | | | |
| Jul 384.7 | 384.7 | | | |
| Aug 383.8 | 383.8 | | | |
| Sep 382.9 | 382.9 | | | |
| Oct 382.0 | 382.0 | | | |
| Nov 381.1 | 381.1 | | | |
| Dec 380.2 | 380.2 | | | |
| Total | 3,298 | | | |

PALLADIUM NYMEX (100 Troy oz: \$/troy oz)

| | Close | High | Low | Vol |
|------------|--------|------|-----|-----|
| Mar 128.00 | 128.00 | | | |
| Apr 127.10 | 127.10 | | | |
| May 126.20 | 126.20 | | | |
| Jun 125.30 | 125.30 | | | |
| Jul 124.40 | 124.40 | | | |
| Aug 123.50 | 123.50 | | | |
| Sep 122.60 | 122.60 | | | |
| Oct 121.70 | 121.70 | | | |
| Nov 120.80 | 120.80 | | | |
| Dec 119.90 | 119.90 | | | |
| Total | 804 | | | |

SILVER COMEX (5,000 Troy oz: \$/troy oz)

| | Close | High | Low | Vol |
|-----------|--------|------|-----|-----|
| Feb 488.4 | 488.4 | | | |
| Mar 487.5 | 487.5 | | | |
| Apr 486.6 | 486.6 | | | |
| May 485.7 | 485.7 | | | |
| Jun 484.8 | 484.8 | | | |
| Jul 483.9 | 483.9 | | | |
| Aug 483.0 | 483.0 | | | |
| Sep 482.1 | 482.1 | | | |
| Oct 481.2 | 481.2 | | | |
| Nov 480.3 | 480.3 | | | |
| Dec 479.4 | 479.4 | | | |
| Total | 24,007 | | | |

CRUDE OIL NYMEX (1,000 barrels: \$/barrel)

| | Close | High | Low | Vol |
|-----------|--------|------|-----|-----|
| Mar 24.20 | 24.20 | | | |
| Apr 24.10 | 24.10 | | | |
| May 24.00 | 24.00 | | | |
| Jun 23.90 | 23.90 | | | |
| Jul 23.80 | 23.80 | | | |
| Aug 23.70 | 23.70 | | | |
| Sep 23.60 | 23.60 | | | |
| Oct 23.50 | 23.50 | | | |
| Nov 23.40 | 23.40 | | | |
| Dec 23.30 | 23.30 | | | |
| Total | 83,539 | | | |

CRUDE OIL IPE (\$/barrel)

| | Close | High | Low | Vol |
|-----------|-------|------|-----|-----|
| Mar 22.55 | 22.55 | | | |
| Apr 22.45 | 22.45 | | | |
| May 22.35 | 22.35 | | | |
| Jun 22.25 | 22.25 | | | |
| Jul 22.15 | 22.15 | | | |
| Aug 22.05 | 22.05 | | | |
| Sep 21.95 | 21.95 | | | |
| Oct 21.85 | 21.85 | | | |

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| | | | |
|------------------------|-------|------|--------|
| Merchandise Trd. | 2007 | -1.5 | 7/2/08 |
| Merchandise Euro Price | 113.5 | +1.6 | 7/2/08 |

[illegible]

| | | | |
|---------------|-----|-----|-----|
| Warrant | 22 | -75 | |
| PP (Feb 2006) | 211 | 41 | 211 |

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| 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 100 |
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| | | | |
|-----|-----------------|-----|-----|
| 382 | Warrant | 100 | 100 |
| - | US Smaller Cos. | 100 | 100 |
| | Warrant | 100 | 100 |

[illegible]

| | | | | |
|------|----------------|------|------|-----|
| 10.6 | Lowest-Low Rec | 410 | — | 50 |
| — | Cap | 112 | — | — |
| 14.6 | Zero Day P1 | 1092 | 1092 | 110 |

[illegible]

| | | | | |
|------|--------------|-----|------|-----|
| 4.0 | Joint Income | 275 | 1994 | --- |
| 13.7 | Capital | 70 | 1994 | --- |

[illegible]

Warrants

مکتبہ اہل حق

AIM - Cont.

- 1 Pondam Foods
- 2 Precision Air Corp.
- 3 Precision Health Care
- 4 Prime Inc.
- 5 Ramco Energy
- 6 Regional Trust Holdings
- 7 Reliance Securities
- 8 Reliance Securities
- 9 Resolute Financial
- 10 Rockman Inc.
- 11 Rumble
- 12 Rumble
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- 100 Rumble

[illegible]

CANADIAN

Bik Montreal
BK Nova Scotia
BC Swan
Buckley Gold
Can trap BK
Cine Tech
4pc (Feb)
Echo Bay
Golf Can
Hawker bid
Kiss P
Imperial CI
Inco
Ito Algonk
Royal BK Canada
Tenneco-Don
Trans Can Pipe
Western Star Trucks

SOUTH AFRICA

Adams

National
 Solid Fdn Prop R.
 NK Props
 NLSA
 NLSB
 NLSB
 NLSB
 Standard Bank
 Tanager
 Tanager
 Tanager

GUIDE TO

Prices for the London
 Financial Times Index
 Company classifies
 Acquisitions Share
 Closing and prices are
 are based on intra-day
 Where stocks are
 this is indicated as
 foreign securities a
 local Stock Exchange
 Symbols referring
 to a *public* in
 covers are published
 Market capitalization
 stock quoted.
 Earnings used in calculation
 Price/earnings ratios
 accounts and, where
 Yields are based on
 tax credit of 20 per
 cent and rights.

[illegible]

and, like most listed companies, has a consistent annual earnings record. The company's 1992 EPS of \$1.00, or estimated 1993 EPS of \$1.00, represents a 10% increase over the previous year's earnings of \$0.90. The company's 1992 dividend yield includes a special dividend of \$0.10. This service is a highly sought after specialty traded in the market for each sector.

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- **Local Stock Exchange**
- **Symbols** referring daily to a guide to covers are published
- **Market capitalisation** stock quoted.
- **Earnings** used in calculation
- **Price/earnings ratio** accounts and, where appropriate, dividends
- **Yields** are based on a tax credit of 20 per cent and rights.
- **Estimated Net Assets** in pence per share. Premiums (Pm) over assumed price changes are shown in parentheses
- **Weights** exercised
- **Highs and lows** of the previous year
- **Interim prices** for interim issues
- **Flotations or reissues**
- **Rule 2.20 (MVA)** approved exchange
- **Free admission** to the market
- **Rule 4.20 (MVA)** Price at time of admission
- **Estimated dividend** for foreign bid or forward dividend
- **Unregulated** company

yield. Assembled declared
 yield after rights added.
 As assembled declared
 yield after study loan.
 As Rights leave pending
 As earnings based on
 discretionary figures.
 As declared yield
 As a special
 payment.
 As indicated declared
 yield, plus rein based on
 previous annual earnings.
 As forecast, or estimated
 (unannounced dividend)
 As yield, job based on
 previous year's earnings.
 As declared yield in-
 creased a special pay-
 ment.
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LONDON STOCK EXCHANGE

Interest rate nervousness unsettles shares

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

A wholly predictable element of caution crept into London's equity market yesterday, taking the leading indices off their recently-attained peaks.

With monetary policy-making meetings scheduled in Washington (today), London (tomorrow) and Frankfurt (Thursday), dealers were not prepared to risk being caught either too long or too short of stock in the event of shifts in interest rates.

The day's UK economic news, provisional M0 money supply

details and the Purchasing Managers' index for January, came in slightly higher than consensus forecasts but caused no real problems for the market.

Nor did the bulk of the economic data from the US, which included personal income and consumption figures for December, construction spending for that month and the National Association of Purchasing Management index for January.

By the close, the FTSE 100 index showed an 18.0 loss at 4,257.8, well above the day's low point, 4,252.3, which was recorded shortly after the UK PMI and M0 news.

Second liners were also in the

firing line with the FTSE 250 index closing 20.5 off at 4,574.9. The index suffered from another sell-off in the cable and television companies which are not involved in the newly-formed British Digital Broadcasting alliance, seeking a licence to provide a digital terrestrial television service in the UK.

It was not all gloom, however, with the SmallCap index rushing up again and recording a new intra-day and closing high of 2,308.2, up 2.6.

The head trader at one of the big European banks said: "It was a quiet Monday at the start of a big week for stats and interest rate meetings; it's hardly surprising that we lost ground."

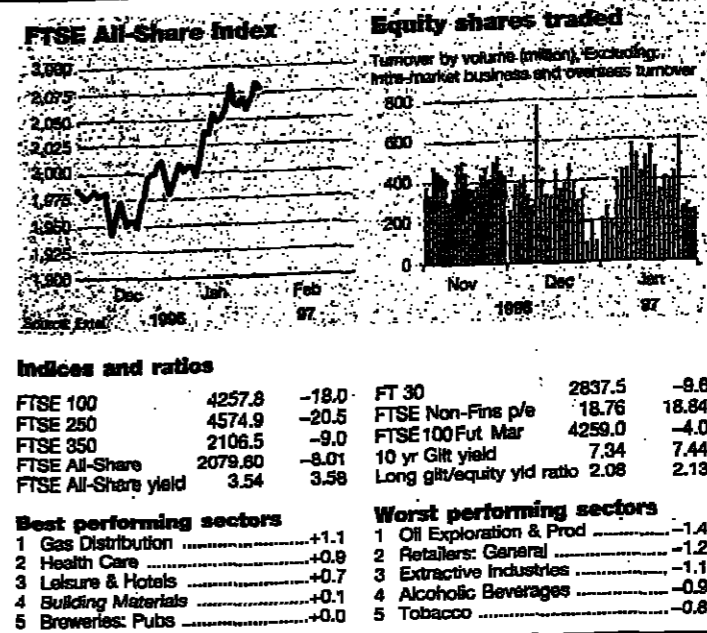
There was comfort for equities in the good showing by gilts. But some dealers, pointing to the latest strong performance by sterling against the dollar and the D-Mark, said currency pressures could begin to exert further pressure on equities, especially the big exporters such as the drug and oil stocks.

The growing speculation about the timing of the general election, plus the controversy over a single European currency, which has been seen by some observers as possibly triggering an exodus of manufacturers, were other factors unsettling London stocks.

Sentiment in the US stock market was affected by the impending Federal Open Market Committee meeting. The Dow Jones Industrial Average began the day under pressure, retreating almost 40 points.

Turnover in UK shares gave further cause for concern, with customer business last Friday coming out at £96.9m, the seventh consecutive session in which retail activity has fallen below the £1bn mark.

Marketmakers attributed the extended slump in turnover to the proximity of the election and to fears that a shift in US interest rate policy could trigger a steep correction on Wall Street and global markets.



Dixons in the dock

By Joel Kibazo and
Peter John

There appeared to be no end to the pain for electrical retailer Dixons, as the market registered its disapproval of last Friday's sale of stock by the company's chairman.

Sir Stanley Kalms' sale of 1m shares was made just days after he attacked Mr Tony Cooper, analyst at Greig Middleton, for advising clients to sell the stock.

Yesterday it was the turn of some of the heavyweight brokers to advise clients to reduce holdings and market specialists indicated that some of the big institutional holders of the stock needed little persuading. Merrill Lynch, said to be among a long list of negative brokers, downgraded its recommendation from "hold" to "reduce".

The shares retreated 38, or 7.4 per cent, to 478p, the worst performer in the FTSE 100 by a long way. Turnover soared to a hefty 10m.

Worries about the threat from the new digital television triumvirate - BSkyB, Carlton Communications and Granada - sent regional television stocks scuttling for cover.

The prospect of such a heavyweight grouping has already sent shudders through the cable compa-

nies, whose broadcast products may quickly become unattractive.

And, yesterday, the market took a harsh look at the prospects for local television as well as the attractiveness of remaining independents as takeover candidates. Yorkshire-Tyne Television slipped 80 to 1,102½p with the tightly-traded stock also under pressure from a couple of agency crosses which went through the market at 1.10p a share.

The fading of bid possibility was particularly clear as Granada has 67 per cent of Yorkshire and has said it may make a full bid "at the right price".

Scottish, which slid 81½ to 546p, was the most badly affected regional. And United News & Media, which owns the Meridian and Anglia stations following the merger with M&L, slipped 31½ to 671p.

On the plus side, BSkyB was up 10 to 609p, Carlton 16½ to 575p and Granada 20 higher at 917p. Analysts believe the move is particularly beneficial to BSkyB, and increases the perception that the satellite broadcaster will control the future of television in Europe. Meanwhile, Flextech, which makes programmes for the BBC, moved up 16 to 715p.

In a sector looking as though it had eaten too much jelly at the party, Clyde Petroleum stood out against a rash of profit-taking in oil stocks.

The company is the subject of what many shareholders consider to be a negatively bid from Gulf

Canada. Gulf has always maintained that its 100p-a-share offer fairly values the UK exploration and production group but very few shareholders agree. Today is the last day for Gulf to raise its offer and it is widely expected to do so.

The only question mark is the level. Some estimates are as low as 115p but the consensus starts at 120p a share and there is the chance that rivals might be prepared to pay another 10p on top of that. Consequently, Clyde shares rose 2 to 117½p.

Elsewhere British-Borneo, which rose 30 per cent last week, slipped 27½ to 1,337½p.

Among smaller stocks, Dragon Oil saw turnover of 44m shares and remained firm at 2p, having jumped by a third late last week. The market acknowledged that the company is active in

Turkmenistan, from where Mountain Oil & Gas has issued some confident reports.

A flow of news boosted leisure giant Ladbroke Group. The shares firmed 3½ to 232½p, after the company said it had settled its dispute with J. Sainsbury over the former's sale of the Texas Homecare business to the food retailer.

The companies agreed that Ladbroke should pay £3.3m to Sainsbury, representing an adjustment of the price paid to £280.7m from the original £290m. One analyst said: "This is good news. Many expected Ladbroke would have to pay much more."

Ladbroke also announced the purchase of AR Dennis, an independent bookmaker, for £31.3m. The market dismissed the weekend press reports suggesting Ladbroke is lining

up a bid for London Clubs. Shares in London Clubs hardened 2½ to 379½p, while those in Sainsbury firmed a penny to 323½p.

National Westminster shares perked up 2 to 773½p as ABN Amro Hoare Govett advised clients to switch into the stock from Barclays.

NatWest shares have been relatively ignored in the run-up to the bank sector's results season begins on February 14 with Lloyds TSB. Both NatWest and Barclays have big cash piles and are forecast to announce some form of return of value to shareholders of up to £500m.

However a number of brokers still like Barclays and the shares closed 4 higher at 1,169½p.

Schroders, the merchant bank which has risen strongly over the past couple of weeks as old takeover talk has resurfaced, fell back 24 to 1,690p. Credit Lyonnais Laing took the stock off its buy list on the basis that it had achieved the broker's short-term target price.

London Electricity stood out with a rise of 7½ to 704p after the government cleared the £1.2bn bid by Entergy for the regional electricity company.

Food manufacturing giant Unilever shed 16½ to 1,379½p with analysts at Lehman Brothers reported to have downgraded current year profit expectations.

Among conglomerates, Tomkins was said to have benefited from a NatWest Securities recommendation. The shares resisted the poor market trend to end the day 5 ahead at 285½p.

Merrill Lynch was said to be negative on several of the leading retailing stocks. The list of those under pressure included Marks and Spencer, 5½ lighter at 490p, and Kingfisher, down 14 at 682½p. Competition fears kept

cable stocks under a cloud following last week's news that a consortium of leading British companies has applied to operate three digital terrestrial television licences.

Nynex Cablecomms surrendered another 2½ to 97p, while General Cable lost 8 to 186p. Telewest fell 7 to 110p.

ADM stock Circle Communications dropped 82½ to 120p after the company said profits for the year ending in December would be significantly below market expectations.

Healthcare company Biocompatibles International built on recent gains with a jump of 75 to 1,230p in further reaction to a Merrill Lynch buy note. Merrill has set an intermediate price target of £16 per share.

London Recent Issues: Equities

| Issue | Price | Yield | Div. | Div. Yield |
|---------------|-------|-------|------|------------|
| 100 F.P. 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |
| 100 F.P. 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |
| 100 F.P. 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |

FT Gold Mines Index

| Index | Value | % Change |
|------------------|--------|----------|
| Gold Mines Index | 1988.3 | -0.5 |

FT Actuarial Share Indices

| Index | Value | % Change |
|--------------------------|--------|----------|
| FT Actuarial Share Index | 1988.3 | -0.5 |

Hourly movements

| Index | Value | % Change |
|----------|--------|----------|
| FTSE 100 | 4257.8 | -18.0 |
| FTSE 250 | 4574.9 | -20.5 |
| FTSE 350 | 2106.5 | -8.0 |

FTSE 350 Industry baskets

| Basket | Value | % Change |
|-----------------|--------|----------|
| Bldg & Constr | 1315.0 | 1315.0 |
| Pharmaceuticals | 6130.2 | 6130.2 |
| Water | 2507.8 | 2507.8 |

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 3/Thu)

S&P 500

DAX

FTSE 100

Nikkei 225

Hang Seng

ASX 200

BSE SENSEX

TSE 300

KOSPI

HSE

LSE

OSE

SSE

SSE

SSE

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NEW YORK STOCK EXCHANGE PRICES

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| Stock | PV | Stk | Hgh | Low | Clas | Stock | PV | Stk | Hgh | Low | Clas | Stock | PV | Stk | Hgh | Low | Clas | Stock | PV | Stk | Hgh | Low | Clas | |
|-----------|---------|------|-------|-------|------|-----------|--------|-----|-------|-------|------|---|-----------|---------|-------|-------|-------|-----------|-----------|---------|-------|-------|-------|---|
| Accu Corp | 262.235 | 231 | 31.72 | - | - | Digital | 50 | 918 | 8.75 | 8.25 | +1/2 | Stock <td>116</td> <td>1823</td> <td>30.75</td> <td>27.75</td> <td>-</td> <td>Accu Corp</td> <td>262.235</td> <td>231</td> <td>31.72</td> <td>-</td> <td>-</td> | 116 | 1823 | 30.75 | 27.75 | - | Accu Corp | 262.235 | 231 | 31.72 | - | - | |
| Accu Corp | 1649 | 54 | 4.75 | 4.50 | +0.6 | Dig Micro | 77.295 | 354 | 34.75 | 34.25 | +1/2 | Accu Corp | 1649 | 54 | 4.75 | 4.50 | +0.6 | Accu Corp | 1649 | 54 | 4.75 | 4.50 | +0.6 | |
| Accu Corp | 90 | 16 | 17.75 | 17.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 90 | 16 | 17.75 | 17.75 | - | Accu Corp | 90 | 16 | 17.75 | 17.75 | - |
| Accu Corp | 82.7672 | 44 | 40.75 | 40.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 82.7672 | 44 | 40.75 | 40.75 | - | Accu Corp | 82.7672 | 44 | 40.75 | 40.75 | - |
| ADC Tech | 51.5631 | 36 | 34.75 | 34.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 51.5631 | 36 | 34.75 | 34.75 | - | Accu Corp | 51.5631 | 36 | 34.75 | 34.75 | - |
| ADC Tech | 0.16 31 | 50 | 26.75 | 26.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.16 31 | 50 | 26.75 | 26.75 | - | Accu Corp | 0.16 31 | 50 | 26.75 | 26.75 | - |
| Adco Inc | 0.20 38 | 50 | 26.75 | 26.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.20 38 | 50 | 26.75 | 26.75 | - | Accu Corp | 0.20 38 | 50 | 26.75 | 26.75 | - |
| Adco Inc | 11 | 618 | 11.14 | 10.12 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 11 | 618 | 11.14 | 10.12 | - | Accu Corp | 11 | 618 | 11.14 | 10.12 | - |
| Adco Inc | 751 | 85 | 8.75 | 8.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 751 | 85 | 8.75 | 8.75 | - | Accu Corp | 751 | 85 | 8.75 | 8.75 | - |
| Adco Inc | 300 | 354 | 28.75 | 28.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 300 | 354 | 28.75 | 28.75 | - | Accu Corp | 300 | 354 | 28.75 | 28.75 | - |
| Adco Inc | 0.52 11 | 7089 | 45.75 | 45.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.52 11 | 7089 | 45.75 | 45.75 | - | Accu Corp | 0.52 11 | 7089 | 45.75 | 45.75 | - |
| Adco Inc | 0.44 12 | 3412 | 47.75 | 46.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.44 12 | 3412 | 47.75 | 46.75 | - | Accu Corp | 0.44 12 | 3412 | 47.75 | 46.75 | - |
| Adco Inc | 0.38 11 | 2072 | 35.75 | 34.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.38 11 | 2072 | 35.75 | 34.75 | - | Accu Corp | 0.38 11 | 2072 | 35.75 | 34.75 | - |
| Adco Inc | 1.72 13 | 235 | 65.75 | 65.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 1.72 13 | 235 | 65.75 | 65.75 | - | Accu Corp | 1.72 13 | 235 | 65.75 | 65.75 | - |
| Adco Inc | 0.08 17 | 300 | 18.75 | 18.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.08 17 | 300 | 18.75 | 18.75 | - | Accu Corp | 0.08 17 | 300 | 18.75 | 18.75 | - |
| Adco Inc | 0.64 13 | 300 | 18.75 | 18.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.64 13 | 300 | 18.75 | 18.75 | - | Accu Corp | 0.64 13 | 300 | 18.75 | 18.75 | - |
| Adco Inc | 0.52 11 | 2100 | 38.75 | 38.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 0.52 11 | 2100 | 38.75 | 38.75 | - | Accu Corp | 0.52 11 | 2100 | 38.75 | 38.75 | - |
| Adco Inc | 100 | 125 | 12.75 | 12.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 100 | 125 | 12.75 | 12.75 | - | Accu Corp | 100 | 125 | 12.75 | 12.75 | - |
| Adco Inc | 1.84 18 | 120 | 24.75 | 24.75 | - | Dig Syst | 50 | 636 | 0 | 0 | 15.2 | - | Accu Corp | 1.84 18 | 120 | 24.75 | 24.75 | - | Accu Corp | 1.84 18 | 120 | 24.75 | | |

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Dow lower in spite of bond gains

AMERICAS

US shares were mostly flat at midsession in spite of a third consecutive session of strong gains on the Treasury market, which brought the yield on the benchmark 30-year Treasury well below 6.8 per cent, writes Lisa Branstetter in New York.

At 1 pm the Dow Jones Industrial Average was off 22.32 at 6,790.77 and the more broadly traded Standard & Poor's 500 lost 0.95 to 785.21. Meanwhile, technology stocks were mixed, with the Nasdaq composite gaining 0.73 at 1,380.58 and the Pacific Stock Exchange technology index, which includes both Nasdaq and NYSE shares, 0.3 per cent weaker. Volume on the New York Stock Exchange came to 282m shares.

There was little to move the market yesterday. Few Wall Street economists expected the Federal Reserve to raise interest rates this week at the two-day meeting of its Open Market Committee that begins today, and earnings reporting season was largely over.

Of the few companies reporting yesterday, ITT Hartford Group was unchanged at \$73.40 despite fourth-quarter earnings which were ahead of outside estimates. Pacificare Health climbed \$1 at \$78.40 after reporting first-quarter earnings of 98 cents per share, 2 cents ahead of expectations. Among individual stocks, Valero Energy lost \$2.40 or 7 per cent at \$31.40 on news

that it had agreed to sell its natural gas business to Pacific Gas & Electric for about \$723m. Shares in PG & E edged up 1/4 at \$22.75. Apple computer shares were unchanged at \$169 in spite of reports that the beleaguered computer maker planned to announce the sale of some businesses in an attempt to reduce expenses. Shares in America Online, the largest online service company in the US, were higher after an analyst at CS First Boston upgraded its rating on the company. AOL, which has had trouble providing Internet access to its 8m members amid a surge in use, saw its shares gain 3 1/2 or 7 per cent to \$39.75.

New York Bagel Enterprises slid \$2 or 32 per cent to \$4.40 after announcing that it expected its fourth-quarter earnings to be well below analysts' expectations due in part to higher labour costs.

TORONTO moved forward on the back of good gains for utilities and a surge for BCE, the telecommunications giant. At noon, the 300 composite index was up 25.72 at 6,135.30.

Half the 14 sector subgroups were showing gains with utilities, up 1.3 per cent, staging the strongest performance. BCE was \$1.60 higher at \$36.45.

Northern Telecom eased 20 cents to \$39.30 and Canadian Pacific came off 5 cents to \$36.35. Royal Bank of Canada gained 45 cents to \$50.25. Barrick Gold jumped 55 cents to \$36.95.

Sao Paulo up 1.5%

SAO PAULO continued to move ahead on the government's long-planned reform programme. At midsession, the Bovespa index was up 1.22 or 1.5 per cent at 80,868, having surged by 2.3 per cent on Friday. Trading was described by brokers as active.

MEXICO CITY tracked Wall Street in light trading and, at midsession, the IPC index was off 25.12 at 3,622.05.

CARACAS also lost ground, reversing a recent run of daily gains in what dealers described as "very thin trading conditions". At midsession the IBC index was 44.24 lower at 6,372.77.

BUENOS AIRES made a solid start to the day, stretching its four-day advance in continued lively trade. At midsession, the Merval index was within a whisker of 700, having added 6.06 to 698.57.

| MARKETS IN PERSPECTIVE | | | | | | |
|------------------------|----------------------------|---------|-------------------|-------------------|---------------|--------|
| | % change in local currency | | % change in US \$ | % change in US \$ | | |
| | 1 Week | 4 Weeks | 1 Year | Start of 1996 | Start of 1997 | |
| Austria | -0.56 | +2.36 | +7.42 | +20.02 | +1.60 | +4.86 |
| Belgium | -0.08 | +4.34 | +19.33 | +27.20 | +1.49 | +53.97 |
| Denmark | -2.76 | -8.01 | -30.25 | -20.74 | -20.74 | -20.74 |
| Finland | +1.48 | +12.01 | +53.33 | +56.68 | +35.15 | +38.50 |
| France | +3.10 | +9.46 | +28.64 | +37.38 | +17.76 | +21.54 |
| Germany | +1.01 | +6.16 | +21.04 | +31.65 | +11.46 | +15.06 |
| Ireland | +2.97 | +5.53 | +25.01 | +29.05 | +24.07 | +28.07 |
| Italy | -0.09 | +19.13 | +22.61 | +29.30 | +23.47 | +27.46 |
| Netherlands | +0.25 | +5.86 | +33.28 | +38.91 | +17.35 | +21.13 |
| Norway | +1.15 | +7.33 | +39.86 | +40.80 | +32.89 | +37.17 |
| Spain | +0.21 | +4.76 | +44.47 | +49.32 | +26.67 | +30.75 |
| Sweden | +1.06 | +6.99 | +45.76 | +49.48 | +32.71 | +36.99 |
| Switzerland | +3.72 | +8.90 | +29.55 | +28.49 | +0.65 | +3.89 |
| UK | +1.11 | +4.17 | +13.28 | +15.42 | +15.42 | +19.14 |
| EUROPE | +1.41 | +6.75 | +22.87 | +27.80 | +15.42 | +19.14 |
| Australia | +0.08 | +1.19 | +6.28 | +9.36 | +8.56 | +12.07 |
| Hong Kong | -0.99 | -1.14 | +11.61 | +27.04 | +22.81 | +26.77 |
| Japan | +1.70 | -7.08 | -14.48 | -12.89 | -28.30 | -25.99 |
| Malaysia | -0.72 | +2.28 | +18.98 | +26.01 | +34.72 | +28.74 |
| New Zealand | +0.47 | +1.61 | +10.84 | +8.99 | +11.17 | +14.75 |
| Singapore | +0.36 | +3.96 | -3.70 | +6.69 | +3.85 | +7.20 |
| Canada | +1.59 | +3.19 | +25.57 | +32.69 | +30.05 | +34.24 |
| USA | +1.90 | +5.14 | +23.51 | +27.42 | +23.44 | +27.42 |
| Mexico | -0.51 | +6.47 | +17.68 | +29.96 | +24.07 | +28.07 |
| South Africa | -0.04 | +0.92 | -4.78 | +5.83 | -18.15 | -15.52 |
| WORLD INDEX | +1.56 | +3.13 | +13.86 | +17.92 | +8.33 | +11.82 |

1 Based on January 31st 1997. 2 Copyright, FTSE International Limited, Goldman Sachs & Co. and Standard & Poor's, 1997. All rights reserved.

FT/S&P ACTUARIES WORLD INDICES

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| NATIONAL AND REGIONAL MARKETS | | | | | | | | | | | |
|--|-----------------|--------------|---------|---------|-----------|----------|----------------|----------------|------------------|-----------------|--------------|
| Figures in parentheses show number of firms of stock | | | | | | | | | | | |
| | US Dollar Index | Day's Change | Point | Index | Yen Index | DM Index | Local Currency | Local Currency | Gross Div. Yield | US Dollar Index | Day's Change |
| | | | | | | | | | | | |
| Australia (76) | 212.36 | -0.3 | 197.01 | 163.42 | 181.32 | 185.82 | 0.0 | 4.10 | 213.66 | 196.21 | 164.42 |
| Austria (24) | 183.05 | 0.4 | 169.34 | 140.47 | 155.85 | 155.77 | 0.3 | 1.84 | 182.27 | 167.38 | 140.25 |
| Belgium (28) | 232.04 | 0.5 | 214.69 | 178.06 | 197.56 | 193.07 | 0.2 | 3.34 | 230.56 | 212.08 | 177.72 |
| Brazil (26) | 212.37 | 2.3 | 186.47 | 182.97 | 180.82 | 408.74 | 2.3 | 1.49 | 207.68 | 180.71 | 159.92 |
| Canada (114) | 199.27 | 0.5 | 184.35 | 162.92 | 169.66 | 194.53 | 0.5 | 1.28 | 198.38 | 182.19 | 152.06 |
| Denmark (27) | 359.91 | 1.8 | 333.96 | 276.19 | 306.43 | 305.89 | 1.6 | 1.44 | 353.53 | 324.65 | 272.05 |
| Finland (28) | 260.97 | 2.7 | 241.43 | 200.26 | 222.19 | 267.41 | 2.9 | 1.86 | 254.19 | 233.43 | 195.61 |
| France (92) | 218.06 | 0.6 | 201.74 | 167.34 | 185.86 | 189.69 | 0.5 | 1.59 | 215.84 | 180.13 | 166.87 |
| Germany (58) | 188.24 | 0.5 | 174.23 | 144.53 | 160.36 | 160.36 | 0.4 | 1.55 | 187.39 | 172.09 | 144.21 |
| Hong Kong (58) | 491.48 | -0.1 | 454.58 | 377.15 | 418.45 | 488.85 | -0.1 | 3.17 | 491.87 | 451.69 | 378.51 |
| Indonesia (27) | 446.04 | 1.2 | 229.47 | 190.94 | 211.19 | 261.82 | 1.2 | 4.47 | 245.14 | 225.11 | 188.64 |
| Ireland (16) | 322.22 | 1.0 | 302.72 | 251.10 | 278.60 | 288.87 | 1.4 | 3.17 | 323.81 | 297.45 | 269.28 |
| Italy (58) | 89.94 | 1.5 | 86.90 | 72.09 | 79.98 | 89.00 | 1.5 | 1.85 | 92.53 | 84.97 | 71.21 |
| Japan (400) | 114.67 | 2.4 | 106.09 | 88.00 | 97.83 | 89.00 | 2.1 | 0.89 | 111.86 | 102.81 | 86.15 |
| Malaysia (107) | 324.54 | 0.5 | 271.78 | 479.26 | 531.74 | 597.79 | 0.5 | 1.04 | 321.54 | 270.58 | 478.14 |
| Mexico (17) | 1326.33 | -0.3 | 1227.22 | 1017.96 | 1129.43 | 1134.83 | -0.6 | 0.97 | 1331.11 | 1222.38 | 1024.34 |
| Netherlands (19) | 330.34 | 0.4 | 305.61 | 253.50 | 281.26 | 277.18 | 0.2 | 2.67 | 324.96 | 302.08 | 253.14 |
| New Zealand (14) | 31.41 | -0.8 | 84.57 | 70.15 | 77.83 | 70.50 | -0.8 | 3.95 | 92.17 | 84.64 | 70.80 |
| Norway (41) | 211.50 | 1.1 | 202.49 | 242.44 | 270.10 | 270.28 | 0.8 | 1.80 | 213.70 | 208.08 | 241.40 |
| Philippines (22) | 211.50 | 0.3 | 195.66 | 162.30 | 180.07 | 277.73 | 0.3 | 0.62 | 210.84 | 193.62 | 162.25 |
| Singapore (43) | 436.54 | 0.4 | 403.86 | 335.00 | 371.88 | 383.19 | 0.4 | 0.97 | 434.90 | 399.37 | 334.67 |
| South Africa (4) | 325.54 | 0.4 | 301.16 | 249.81 | 277.17 | 324.82 | 0.4 | 2.50 | 324.59 | 297.80 | 249.55 |
| Spain (53) | 215.99 | 1.2 | 199.82 | 165.75 | 185.90 | 226.71 | 1.5 | 2.76 | 213.49 | 186.05 | 164.28 |
| Sweden (50) | 427.84 | 1.7 | 395.53 | 328.09 | 364.01 | 457.70 | 1.4 | 1.94 | 420.86 | 396.21 | 323.64 |
| Switzerland (38) | 245.17 | 1.7 | 228.82 | 188.14 | 208.74 | 216.32 | 1.6 | 1.34 | 240.99 | 221.30 | 185.45 |
| Thailand (45) | 89.58 | -0.5 | 81.88 | 67.88 | 75.42 | 89.10 | -0.8 | 3.95 | 92.17 | 84.64 | 70.80 |
| United Kingdom (211) | 274.86 | 0.5 | 254.09 | 210.77 | 235.85 | 246.89 | 1.1 | 3.74 | 270.81 | 251.45 | 210.71 |
| USA (651) | 220.15 | 0.3 | 205.18 | 245.68 | 272.58 | 320.15 | 0.3 | 1.65 | 218.29 | 203.21 | 245.70 |
| Americas (823) | 209.00 | 0.3 | 271.07 | 224.85 | 249.47 | 248.36 | 0.3 | 1.84 | 202.15 | 208.28 | 224.82 |
| Europe (728) | 239.32 | 0.7 | 221.40 | 183.65 | 203.76 | 217.14 | 0.9 | 2.68 | 237.57 | 218.16 | 182.82 |
| Nordic (151) | 373.02 | 1.8 | 345.10 | 288.25 | 317.60 | 346.65 | 1.5 | 1.84 | 366.55 | 336.81 | 282.07 |
| Pacific Basin (873) | 135.84 | 1.7 | 123.67 | 104.24 | 115.66 | 103.69 | 1.5 | 1.35 | 135.54 | 122.63 | 102.76 |
| Europe Pacific (1589) | 178.94 | 1.2 | 168.58 | 137.32 | 152.55 | 146.83 | 1.2 | 2.11 | 175.88 | 162.43 | 136.11 |
| North America (768) | 312.87 | 0.3 | 299.45 | 240.09 | 266.39 | 311.87 | 0.3 | 1.85 | 312.00 | 296.52 | 240.10 |
| Europe Ex. UK (515) | 214.96 | 1.0 | 198.86 | 164.96 | 183.02 | 193.16 | 0.9 | 2.08 | 212.87 | 195.89 | 163.91 |
| Pacific Ex. Japan (393) | 312.03 | -0.1 | 288.67 | 239.44 | 265.67 | 271.88 | 0.0 | 2.72 | 312.36 | 286.85 | 240.37 |
| World Ex. US (1812) | 182.35 | 1.1 | 168.09 | 139.93 | 155.25 | 152.36 | 1.1 | 2.09 | 183.33 | 165.00 | 138.77 |
| World Ex. UK (2235) | 221.65 | 0.8 | 205.06 | 170.09 | 185.72 | 195.25 | 0.7 | 1.76 | 219.98 | 202.01 | 170.28 |
| World Ex. Japan (1989) | 283.19 | 0.4 | 261.99 | 217.32 | 241.11 | 271.63 | 0.5 | 2.16 | 282.04 | 259.00 | 217.84 |
| The World Index (2498) | 226.20 | 0.7 | 203.26 | 173.58 | 192.59 | 200.61 | 0.7 | 1.98 | 224.59 | 206.24 | 172.83 |

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Davos semis update lifts Siemens, ASM

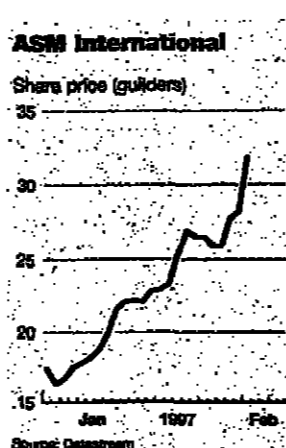
EUROPE

A confident view of semiconductor prospects in Davos yesterday from Mr Andy Grove, chief executive of the US major, Intel, found echoes both in Germany and in the Netherlands.

FRANKFURT saw Siemens lead the active charts for the second day running, turning over DM1.46bn by itself as the shares rose DM3.47 to DM83.40, up 16.7 per cent since January 2.

Mr Michael Geiger at CS First Boston said that, in addition to the semis story, there was talk that Siemens would explore links in power generation with Westinghouse of the US and, possibly, with a potential French partner; that Siemens had said recently that it would sell some of its non-core businesses; and that while the stock was late cycle, and in reality a 1998 prospect, it had been depressed by the interruption in its growth rate forecast for 1996-97.

The Dax index rose 27.70 to an all-time high of 3,064.70, turnover easing from DM13.5bn to DM13.3bn. A 70 per cent jump in profits at Metallgesellschaft, almost bankrupt in 1994, took MG up another DM1.36 or 4.1 per cent to DM34.35 while Deutsche Babcock, another low-bottom recovery prospect in the engineering field, was



inspired to a gain of DM4 at DM82.50, more than doubled in less than a month.

AMSTERDAM reported clear demand for Philips which jumped F11.40 or 1.9 per cent to F175.40 on buying said to be largely US-inspired. Improved high-tech sentiment stemming from the upbeat Intel remarks washed over on to a number of smaller stocks. ASM International, for example, surged F3.40 to F31.60.

Hoogovens came off 60 cents to F175.10 on strike worries. KLM dipped 50 cents to F39.80 ahead of today's third-quarter results. The AEX index ended the day down 0.91 at 674.77.

PARIS traded lower in spite of strong performances at Havas and Thompson-

CSF, where takeover talk led to active trading.

Havas rose FF18.50 or 4.6 per cent to FF424 after a French press report suggested that Havas was to issue shares to Générale des Eaux in return for the latter's 20 per cent stake in Canal Plus. The story was embellished further by news that Alcatel Alsthom was in talks with Eaux about Alcatel's stake in Havas.

The hot gossip was that Eaux, which closed FF11 better at FF719, wanted to increase its stake in Havas from a present 2.5 to around 30 per cent.

Alcatel ended off FF6 at FF452. Dealers said this partly reflected Alcatel's confirmation that it was in talks with Aerospatiale and Dassault about a possible joint bid for the state's 58 per cent stake in Thomson-CSF. CSF jumped FF4.60 to FF169.

At the close, the CAC 40 index was down 8.01 at 2,508.55. A steep decline in new car sales in France last month pushed Peugeot down FF14 to FF75 and left Renault 50 centimes off at FF118.6.

ZURICH recovered from an early pullback as the dollar's strength, lively foreign demand and the prospect of stable interest rates took the SMI index further into record territory, up 10.6 to

FTSE Actuaries Share Indices

| THE EUROPEAN SERIES | | | | | | | | | | | |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|--|--|--|
| Hourly changes | | | | | | | | | | | |
| | Open | 10.30 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | Close | | | |
| FTSE Europe 100 | 2054.28 | 2054.55 | 2055.36 | 2058.80 | 2060.05 | 2061.90 | 2061.78 | 2063.25 | | | |
| FTSE Europe 250 | 2068.48 | 2067.94 | 2068.51 | 2069.91 | 2067.53 | 2068.28 | 2068.27 | 2068.08 | | | |
| Jan 31 | | | | | | | | | | | |
| FTSE Europe 100 | 2053.31 | 2046.32 | 2033.21 | 2042.48 | 2037.64 | | | | | | |
| FTSE Europe 250 | 2069.49 | 2060.41 | 2058.75 | 2062.48 | 2057.88 | | | | | | |
| Jan 29 | | | | | | | | | | | |
| FTSE Europe 100 | 2053.31 | 2046.32 | 2033.21 | 2042.48 | 2037.64 | | | | | | |
| FTSE Europe 250 | 2069.49 | 2060.41 | 2058.75 | 2062.48 | 2057.88 | | | | | | |

Source: Reuters. Last prices available for the indices. Last prices were available for the indices.

4,282.8. Mr Mike Young at Goldman Sachs upgraded Switzerland to an overweight position in the Europe portfolio, on the positive effect on earnings of a weaker Swiss franc.

Roche, sharply higher last week, ran into profit-taking as the company outlined its long-term R&D programme to analysts. The certificates lost SF255 to SF12,240, while its rival, Novartis picked up SF21 to SF1,650.

Financials saw renewed demand after their recent underperformance. Swiss Re jumped SF31 to SF1,433, UBS firm SF12 to SF1,193 and SBC added SF4 to SF267.

MILAN was weighed down by the debate over whether the